Bank of Jamaica

Quarterly Monetary

Policy Report

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PREFACE

The Bank of Jamaica's Quarterly Monetary Policy Report reviews the conduct of monetary policy and the main factors that influenced inflation during the quarter. It also presents the Bank's perspective on emerging economic trends and the path of monetary policy over the short to medium term. This issue includes a discussion on the Trends and Prospects in the Balance of payments as well as, the appropriateness of Exchange rate regimes and monetary policy.

The developments in the review quarter are set against policy targets for the fiscal year, which runs from April to March. In some instances the data used in the preparation of the report are provisional and are therefore subject to change.

OVERVIEW

Monetary Policy in the March 2004 quarter was conducted in a fairly stable macroeconomic context engendered by buoyancy in the tourism earnings, improved output levels and adequate Jamaica Dollar liquidity. Government's borrowing on the international and regional markets enabled a reduction in its demand for domestic financing and a net redemption of domestic instruments, which increased Jamaica Dollar liquidity levels. The purchase of foreign loan proceeds from the Government facilitated a build up in the Bank of Jamaica's net international reserves (NIR) by US$403.7 million for the quarter. These factors coupled with an improvement in the fiscal accounts in the quarter, precipitated a strengthening of investor confidence, which was reflected in a willingness to hold Jamaica Dollar assets at lower interest rates. In this regard, the downgrade of Jamaica's long-term domestic debt by Standard and Poor's in February did not appear to dampen investor confidence which was enhanced by the signing of a Memorandum of Understanding (MOU) between the Government of Jamaica and the trade unions.

Against this background and in the context of the extended period of stability in the foreign exchange market, the Central Bank was able to effect a lowering in interest rates on six occasions during the quarter. Reductions were applied to all maturities with sharper declines undertaken in respect of the longer tenors. The rate on the Bank's 365-day instrument was decreased by 505 basis points from 23.0 per cent at end December to 17.95 per cent at end March 2004. The rate adjustments constituted a further step in the process of normalising the yield curve on the Bank's open market instruments. Concurrently, supported by positive market developments, the Bank was able to reabsorb liquidity resulting from high currency redemptions and an increase in the NIR during the quarter. This was done at reduced interest rates, thereby lowering the costs to the Bank. This action facilitated a dampening of inflationary impulses that might have emanated from excess money in the system.

Consistent with buoyant Jamaica Dollar liquidity, the decline in Government's demand for domestic financing and a relaxation of monetary policy, interest rates in the private money market also softened significantly during the review period. The average maximum rate on 30-day repurchase agreements declined steadily from 22.5 per cent at end December 2003 to 15.15 per cent at end March. Accompanying the declining trend in interest rates and buoyancy in both the Jamaica Dollar and foreign currency markets was a resurgence of widespread interest in equity investments. Accordingly, the main JSE index increased by 47.4 per cent during the March 2004 quarter and by 112.1 per cent during FY2003/04 to a record high of 99 630.22 points. The robust performance of the stock market in recent months, point to the attractiveness of the market as a source of capital for the business sector and by extension, an avenue for stimulating economic growth.

The Bank's preliminary estimates suggest that there was overall economic growth in the review quarter relative to the corresponding 2003 quarter. This expansion represented the seventh successive quarter of economic growth and combined with an expansion of 1.9 per cent for the period April to December 2003, contributed to an estimated real increase in GDP in the range of 2.1 per cent to 2.3 per cent for FY2003/04. Growth in the fiscal year emanated from both the goods producing and services sector. The estimated economic growth in the March quarter reflected expansions in real consumption spending and capital formation with the latter suggesting an improvement in investment spending which augurs well for economic growth in the longer-term. Further, an increase in economic output in 2004/05 should also assist in moderating inflationary impulses and return inflation to single digits in the year.

Inflation for the March 2004 quarter was 1.9 per cent in contrast to negative inflation of 0.4 per cent in the corresponding 2003 quarter. March's outturn brought inflation for FY2003/04 to 16.8 per cent, which significantly exceeded the 6.2 per cent inflation achieved in 2002/03. The main driver of headline inflation in the March 2004 quarter was an increase in international commodity prices, including adverse crude oil price movements and increases in administered prices. For the full fiscal year 2003/04, these factors as well as, sharp exchange rate depreciation in the first quarter of the fiscal year and the impact of Government's revenue measures also contributed to the higher level of inflation.

There was a moderation of core or underlying inflation in the March 2004 quarter. As measured by the trimmed mean index, core inflation slowed to 1.1 per cent in the quarter from the 2.0 per cent recorded in the December 2003 quarter. The slowing of underlying inflation in the review quarter reflected the stable monetary conditions of the two preceding quarters, which were characterised by relative stability in the exchange rate. This stability contributed to a significant decline in the rate of price inflation for durable goods. For FY2003/04, core inflation was estimated at 7.9 percent. This exceeded the 4.2 per cent estimated for FY2002/03 and largely reflected the higher than programmed growth in the monetary base for the first three quarters of the fiscal year. For the fourth quarter of the fiscal year, the monetary base declined by 10.7 per cent, which limited the expansion for FY2003/04 to 11.3 per cent, relative to a targeted expansion of 10.3 per cent. The contraction in the monetary base in the March 2004 quarter was achieved through an increase in open market operations and a build-up in Government deposits in the Bank of Jamaica. These absorbed some of the liquidity emanating from an increase in the NIR.

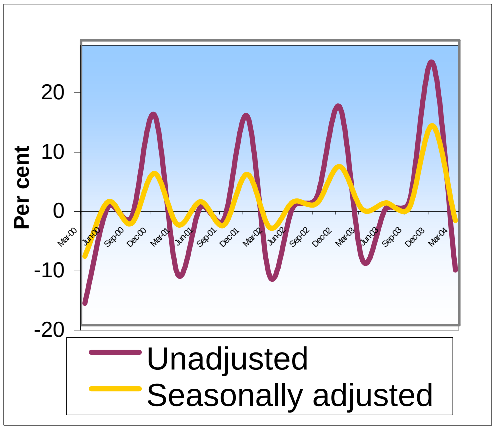
Based on the positive trends observed in key macroeconomic indicators at the end of FY2003/04, the outlook for FY2004/05 is encouraging. Further, growth in the Jamaican economy is projected. This is in a context of expected continued expansion in the world economy, which should have a positive impact on the demand for exports such as tourism and mining and should boost remittances inflows.

It is expected that domestic interest rates will continue to fall in a context of Government's commitment to lower the fiscal deficit within the range of **3.0 - 4.0 per cent of GDP.** This should facilitate cheaper credit to the private sector. Due to seasonal influences, inflation in the June 2004 quarter is expected to be marginally higher than in the March quarter. However, the increased output levels and continued stability in the foreign exchange market should have a moderating influence on prices in the rest of the fiscal year and facilitate an inflation outturn in line with the target of **8.0 - 9.0 per cent.** Monetary policy will continue to focus on the reduction of core inflation. The major threat to the achievement of the inflation target is an escalation in international crude oil prices.

Included in this issue of the quarterly report are two important boxes, which seek to enhance understanding of the relevant macroeconomic issues. The first box entitled *Recent Trends and Prospects in the Balance of Payments*, seeks to explain the factors that contributed to an increase in the current account deficit between FY1988/89 and FY2002/03 and sets the context for a recovery in 2004/05 and beyond. The second box – *Exchange Rate Regimes and Monetary Policy* identifies the context within which countries including Jamaica, have adopted particular exchange rate regimes. It evaluates Jamaica's recent experience with a flexible exchange rate system and concludes that its record of monetary and price stability for the past five years as well as, the outlook for the medium term does not suggest any need for change at this time.

1. Monetary Policy and Financial Markets

Figure 1.1
Base Money
(Quarterly Change)



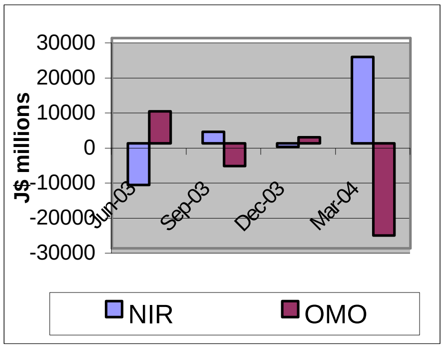
Money & Credit

Base Money

Monetary policy management in the March 2004 quarter was conducted in the context of a general improvement in the macroeconomic environment. Strong foreign exchange inflows and growth in the economy facilitated generally stable conditions in the foreign exchange market during the quarter. Further, investor confidence was enhanced by the Government's success in securing financing on the international capital market, which reduced reliance on the domestic market. In this context, the Bank lowered interest rates on open market instruments six times during the quarter. Supported by the positive developments, the Bank at reduced interest rates absorbed the liquidity impact of the high currency reflows following seasonal expansions in the December quarter as well as, the increase in the NIR. Accordingly, the monetary base contracted by 10.7 per cent for the quarter thereby limiting the expansion for FY 2003/04 to 11.3 per cent.

During the March quarter, the monetary base declined by $4 339.9 million or 10.7 per cent relative to the targeted reduction of 11.0 per cent (see **Figure 1.1 and Appendix C3**). The decline in the stock of high-powered money was a result of absorption of $28 924.0 million through the net domestic assets (NDA) that offset an injection of $24 584.1 million from the NIR. The NDA outturn was mainly influenced by the Bank's absorption of $26 312.3 million in excess liquidity through its open market operations during the period (see **Figure 1.2**) and a buildup of $7 176.2 million in Government deposits at

Figure 1.2
Effects of the NIR & OMO on liquidity*
Absorption-negative, Injection-Positive



the Bank.

Strong revenue flows in the March quarter allowed the Government to limit the use of its balances at the Bank of Jamaica. The build up in Government balances, therefore, was due mainly to the receipt of loan proceeds of €200.0 million (US$253.0 million) and US$50.0 million that was raised on the international capital market **(see Bond Market)**. The sale of the proceeds of these loans to the BOJ, coupled with direct purchases of foreign exchange from the market contributed to the increase in the NIR of US$403.7 million. At the end of the quarter, the NIR stood at US$1 568.7 million, representing an increase of US$229.0 million for the fiscal year.

The contraction in the monetary base during the quarter was reflected in net currency redemptions of $4 495.9 million leading to a decline of 15.3 per cent in currency issue. In addition, the current account balances of the commercial banks declined by $12.9 million, while there was an increase of $168.5 million in the statutory cash reserves. With respect to currency issue, the stock increased by $4 200.9 million or by 20.3 per cent for the fiscal year. This increase was largely due to the higher inflation outturn as well as, the installation of additional automated banking machines (ABMs) by the commercial banks.

In spite of excess liquidity emanating from currency flows during the review quarter and large maturities from Government and open market instruments, confidence in the economy facilitated stable foreign exchange market conditions. This allowed the Bank to cut rates on its open market instruments on six occasions during the quarter. The largest reductions were applied to tenors of 120 days and over. At the end of the quarter, the highest rate the Bank offered on open market instruments was 17.95 per cent on the 365-day instrument (see **Bond Market**).

For the fiscal year 2003/04, the monetary base expanded by 11.3 per cent which was higher than the targeted increase of 10.3 per cent. This outturn occurred within the context of expansionary impulses from the higher NIR stock and increased claims on the public sector during the first three quarters of the fiscal year. These impulses were tempered by the accumulation of open market instruments by investors **(**see **Appendix C3)**.

In the upcoming fiscal year, the Bank is expected to continue to reduce its claims on the public sector as the Government strives to meets its deficit target. This change, coupled with the improvement in the macroeconomic fundamentals, should facilitate further access to the international capital market. These factors should engender continued demand for Jamaica Dollars at lower interest rates. In this regard, the Bank would be able to contain any monetary expansion arising from an accumulation in foreign reserves thus allowing for a normalization of core inflation. This augurs well for the achievement of the 9.0 per inflation target.

Money Supply

*For the March 2004 quarter, broad Jamaica Dollar money supply, M3J, increased by 2.6 per cent, relative to the 0.2 per cent reduction that was anticipated in the monetary programme. The outturn in M3J reflected the higher than expected money multiplier. The main source of monetary growth during the quarter was the net build up in the NIR of the Bank of Jamaica (see **Base Money**). This expansionary impulse was moderated by a notable increase in BOJ open market instruments, as well as, a significant decline in banking system credit to the public sector. The broader measure of money supply, M3*, which includes foreign currency deposits, grew by 4.6 per cent, largely reflecting an increase of 9.8 per cent in foreign currency deposits.*

Table 1.1

Money Supply (3-month growth rates)			
		M3J	M3*
2002	Mar.	-0.4	1.5
	June	3.0	2.3
	Sept.	6.0	6.7
	Dec.	2.0	2.9
2003	Mar.	-6.3	-1.9
	June	3.0	5.2
	Sept.	4.6	4.1
	Dec.	6.5	5.3
2004	Mar.	2.6	4.6

During the review quarter, broad Jamaica Dollar money supply (M3J) increased by $4 016.2 million or 2.6 per cent relative to the previous quarter. This compares to the 6.3 per cent reduction observed during the comparable period of FY 2002/03 (see **Table 1.1**) and the 4.4 per cent increase anticipated in the monetary programme.

A significant build up of $24 584.1 million or US$403.7 million in the NIR of the BOJ, was the main factor driving the growth in M3J for the March 2004 quarter. This is relative to the $1 041.3 million reduction observed during the previous quarter. Primarily, the proceeds from a €200 million Eurobond and a US$50.0 million regional bond bolstered the growth in the NIR during the review quarter (see **Bond Market**).

Other sources of expansion in M3J during the review quarter included private sector credit, which increased by $4 721.8 million and securities purchased for resale, which grew by $4 650.6 million.

The liquidity which emanated from these sources of increase in M3J were partly offset by a net build up of $26 312.3 million in BOJ open market liabilities and a $22 169.1 million reduction in banking system credit to the public sector. The decline in banking system credit to the public sector largely reflected a build up in Central Government deposits at the BOJ during the review quarter. Simultaneously, there was an increase in BOJ open market liabilities in spite of a series of interest rates reductions effected by the Central Bank see (**Table 5 in Appendix C**).

Table 1.2

Money Supply (12-month growth rates)		
M1J	**Mar-03**	**Mar-04**
M1J	-9.0	33.2
M2J	-0.5	16.2
M3J	4.4	17.6
M*		
M1*	-7.2	40.0
M2*	7.5	20.2
M3*	10.2	20.6

The expansion in M3J during the March 2004 quarter was largely reflected in increases of 6.6 per cent and 2.7 per cent in *other deposits* and quasi money. The growth in *other deposits* was primarily the result of a $3 784.7 million expansion in commercial banks' reserves during the review quarter. With regard to the components of quasi money, time deposits and savings deposits grew by 7.1 per cent and 1.3 per cent, respectively. For the same period of 2003, time deposits declined by 4.2 per cent while savings deposits remained basically flat**.** The build up in time deposits during the review quarter was the highest for a March quarters since 1999. This increase reflected an improvement in domestic market confidence and an increased willingness by investors to hold Jamaica Dollar assets.

Growth in the broadest measure of money supply, M3*, slowed to 4.6 per cent during the March 2004 quarter, relative to the 5.3 per cent increase that obtained in the previous quarter. The outturn for the review quarter reflected expansions of 9.8 per cent and 4.9 per cent in foreign currency deposits and local currency deposits, respectively. This was partially offset by a reduction of 11.0 per cent in currency in circulation. For the corresponding quarter of 2003, foreign currency deposits increased by 12.2 per cent while local currency deposits and currency in circulation decreased by 4.9 per cent and 15.1 per cent, respectively. This was in a context of foreign exchange market instability and a waning of investor confidence.

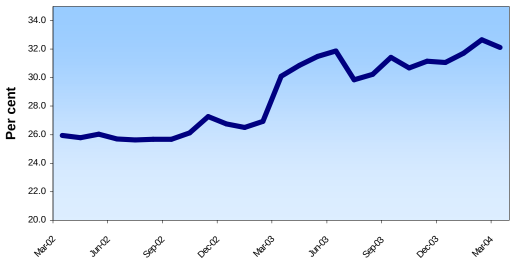
The rate of increase in foreign currency deposits in the March 2004 quarter was faster than the seasonal pattern observed for previous March quarters. This was largely reflected in foreign currency demand deposits which increased by 21.6 per cent, relative to the 4.1 per cent growth observed for the corresponding period of FY 2002/03. The rate of increase was largely influenced by a single transaction during February 2004. Abstracting from this deposit, the increase in foreign currency deposits for the quarter would have been partly due to increased foreign exchange earnings in the economy (see **Foreign Exchange markets**). In addition, the returns offered on foreign currency deposits by local banks were higher than those on competing instruments abroad. Consequently, the ratio of foreign currency deposits of the private sector to total deposits increased to 32.0 per cent at end March 2004, relative to 31.1 per cent at end December 2003 and 30.1 per cent at end March 2003 (see **Figure 1.3**).

For FY 2003/04, the nominal growth in broad Jamaica Dollar money supply was 17.6 per cent, compared to the 4.4 per cent observed in FY 2002/03. This expansion

Table 1.3

INTEREST RATES IN THE DOMESTIC MARKET			
COMMERCIAL BANK WEIGHTED AVERAGE DEPOSIT RATES			
	Mar-03	**Dec-03**	**Mar-04**
Overall Average			
Weighted rate	**6.83**	**6.70**	**6.48**
Demand	3.57	3.52	3.36
Savings	6.42	6.33	6.11
Time	8.87	8.68	8.47
Foreign Currency Average			
Weighted rate	**3.32**	**3.33**	**3.24**
Demand	2.92	3.05	2.95
Savings	2.54	2.28	2.32
Time	5.29	5.45	5.16
6-MONTH TREASURY BILL RATE	**33.47**	**22.50**	**15.57**
BOJ 180-DAY REPURCHASE AGREEMENT RATE	**33.15**	**21.00**	**16.00**

Figure 1.3
Foreign Currency Deposits to Total Deposits
March 2002 - 04



in M3J for the FY 2003/04 was relative to the 15.6 per cent increase projected in the monetary programme, mainly due to the higher than expected inflation outturn. Expressed in real terms, M3J grew by 4.2 per cent in FY 2003/04, relative to a reduction of 1.99 per cent during FY 2002/03.

The increase in M3J for FY 2003/04 largely reflected notable increases of 33.2 per cent and 22.9 per cent in narrow money (M1J) and other deposits, while quasi money grew by 8.4 per cent. Of the expansion in M1J, currency in circulation and demand deposits grew by 19.1 per cent and 48.1 per cent, respectively. With regard to the outturn in the components of quasi money, savings deposits and time deposits grew by 11.1 per cent and 0.7 per cent, respectively.

The higher than programmed growth in M3J was in part due to a larger than anticipated increase in the NIR of the BOJ. The liquidity which emanated from the NIR accumulation was partly countered by a lower than targeted expansion in banking system credit and an increase in BOJ open market liabilities.

Broad money supply including foreign currency deposits, M3*, grew by 20.6 per cent during FY 2003/04 relative to the 10.2 per cent expansion observed during FY 2002/03 (see **Table 1.2**). The outturn for FY 2003/04 resulted from an increase of 28.6 per cent in foreign currency deposits. The ratio of foreign currency deposits of the private sector to total deposits was 32.1 per cent at the end of FY 2003/04, relative to 30.1 per cent at end March 2003, 26.0 per cent at end March 2002 and 24.0 per cent at end March 2001.

Figure 1.4
Velocity of Circulation
(Quarterly Trends)
December 1999- March 2004

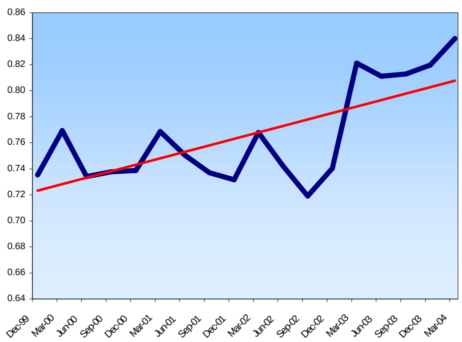
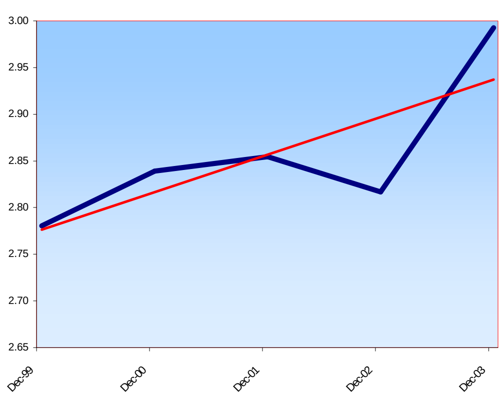


Figure 1.5
Velocity of Circulation
(Annual Trends)
December 1999- 2003



At end March 2004, the money multiplier was 4.43, relative to the 4.36 anticipated in the monetary programme. The outturn for the review quarter was relative to the 3.86 observed at end December 2003 and 4.20 at end March 2003. The higher money multiplier reflected the seasonally low outturn in the currency to deposits ratio, which was 14.73 per cent at end March 2004, relative to 17.37 per cent at end December 2003 and 14.52 per cent at end March 2003.

A slower rate of growth in M3J relative to the previous quarter reflected an increase in the *velocity of circulation*[1] of broad Jamaica Dollar money supply (V) from 0.81 at end December 2003 to 0.83 at end March 2004. This increase in the velocity of circulation was consistent with the outturn for the March quarters (see **Figure 1.4**). The outturn in these periods reflects the seasonal decline in currency in circulation.

The velocity of circulation for the 12-month period ending December 2003 was 2.98, relative to 2.80 for 2002 and 2.84 at end December 2001 (see **Figure 1.5**). The outturn during calendar year 2003 reflected investors' willingness to hold Jamaica Dollar denominated assets in a context of relatively improved domestic market confidence and Central Government's increased participation in the domestic financial markets. The upturn in the velocity of circulation during 2003 may have been as a result of a significant growth in nominal GDP relative to the increase in broad Jamaica Dollar money supply.

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[1] $V = \frac{PT}{M}$; Irving Fisher (1867-1947)

Table 1.4

Commercial Bank Distribution of Total Credit to the Private Sector (QuarterlyFlows)			
	Mar-03	Dec-03	Mar-04
Total Private Sector Credit.	3623.3	6111.3	5920.8
Loans and Advances	3542.6	5267.0	4098.6
Other Investments and Debentures	80.7	844.3	1822.2

Table 1.5

Economic Programme Targets Private Sector Credit Flows J$M					
	Jun-03	Sep-03	Dec-03	Mar-04	FY 2003/04
Target*	1584.3	2196.4	2116.5	5113.1	11010.3
Out-turn	7010.1	6129.7	6113.1	5920.8	25173.7
Deviation	5425.8	3933.3	3996.6	807.7	14163.4

*revised target for FY2003/04

Private Sector Credit

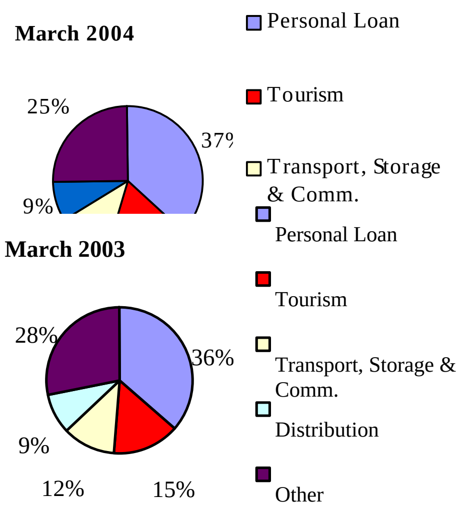
Credit to the private sector reflected growth of 8.0 per cent for the quarter ended March 2004. This represented a continuation of the strong growth observed over the last two years. Personal Loans, Tourism and the Construction & Land Development sectors recorded the largest share of the increase in private sector credit for the review quarter. Foreign currency loans continued to reflect relatively strong increase in demand. The expansion in total credit was encouraged by a further decline in the overall weighted average loan rate. Although, the overall loan rate rose in the first half of FY 2003/0,4 rates subsequently resumed the downward trajectory observed since the mid 1990s. For FY 2003/04, Private sector credit recorded an overall growth rate of 46.0 per cent, well above the revised programme target of 20.1 per cent. There was a further improvement in the quality of the banks' loan portfolio during FY 2003/04.

Against the background of relative stability in the macro-economy, enhanced investor confidence, a lowering of interest rates and expectations of further reductions in the cost of funds, growth in commercial bank credit to the private sector remained robust during the March 2004 quarter. The stock of private sector credit at the end of March 2004 was $79 883.8 million, representing an expansion of $5 920.8 million or 8.0 per cent for the review period, compared with an expansion of $3 623.3 million or 7.1 per cent for the corresponding period of 2003. This increase in credit for the March 2004 quarter reflected an expansion in loans and advances of $4 098.6 million and increases in commercial banks' holdings of other investments and debentures of $1 822.2 million (see **Table 1.4**). The increase in private sector credit

Table 1.6

Commercial Bank Distribution of Loans and Advances to the Private Sector (Quarterly Flows J$M)	Mar-03	Dec-03	Mar-04
Agriculture & Fishing	-148.55	-214.63	368.75
Mining & Quarrying	48.72	86.04	-257.41
Manufacturing	261.27	-220.49	-74.36
Construction & Land Dev.	861.99	-1013.61	1740.05
Transport Storage & Comm.	703.26	1270.12	-907.58
Tourism	695.13	1333.82	1561.70
Distribution	115.94	1054.73	-977.09
Professional & Other Services	-124.67	509.17	560.06
Personal Loans	1910.96	2367.69	1888.60
Electricity	-719.38	92.25	68.66
Entertainment	-46.49	11.00	127.34
Overseas Residents	-15.58	-9.07	-0.13
TOTAL	**3542.61**	**5267.02**	**4098.58**

Figure 1.6
Sectoral Distribution of Commercial Bank Credit to the Private Sector Per Cent of Outstanding Stock
March 2003 & March 2004



surpassed the $5 113.1 million revised target outlined in the monetary programme for the quarter ended March 2004 (see **Table 1.5**). For the FY 2003/04, private sector credit recorded growth of 46.0 per cent which far exceeded the revised programme target of 20.1 per cent.

Personal Loans continued to record significant growth, accounting for the largest increase in overall commercial bank lending. This category increased by $1 888.6 million accounting for 46.1 per cent of the total increase during the review period. For the FY 2003/04, *Personal Loans* recorded an increase of $8 845.5 million compared with $5 545.9 million in the previous FY 2002/03. The growth in *Personal Loans* is supported by the increased use of lines of credit available to the private sector. In particular, credit card receivables increased by $1 822.5 million or 42.4 per cent during FY 2003/04 accounting for 20.6 per cent of the increase in *Personal Loans* for the period. For FY 2002/03, credit card receivables increased by $1 237.8 million or 40.4 per cent, accounting for 22.3 per cent of the increase in personal loans for the period.

The pattern of growth in credit to the economic sectors was consistent with the developments observed in the real sector (see **Real Sector Developments**). The growth recorded in *Personal Loans* was closely followed by significant growth in the *Construction & Land Development* and *Tourism* sectors that recorded increases of $1 740.1 million or 42.5 per cent and $1 561.7 million or 38.1 per cent, respectively. This was offset by significant net repayments of $977.1 million and $907.6 million from the *Distribution* and *Transport, Storage & Communication* sectors, respectively (see **Table 1.6**).

Table 1.7

Commercial Bank Distribution of Foreign Currency Loans & Advances to the Private Sector (FLOWS US$M)

	Mar-03	Dec-03	Mar-04
griculture & Fishing	-0.1	0.0	0.1
Iining & Quarrying	0.0	1.1	-4.7
Ianufacturing	-0.7	-1.1	1.7
onstruction & Land Development	-2.6	-1.9	-4.8
ransport, Storage & Communication	12.6	-5.5	9.6
lectricity, Gas & Water	-8.2	0.0	0.0
istribution	-0.2	-2.1	4.8
ourism	2.2	27.4	8.7
ntertainment	-0.1	0.1	1.8
rofessional & Other Services	2.6	2.8	-0.5
ersonal Loans	-0.9	-0.1	-1.1
verseas Residents	0.0	0.0	0.0
OTAL	4.5	20.6	15.7

Table 1.8

Commercial Bank Domestic Currency Average Weighted Lending Rates by Loan Type

	Mar-03	Dec-03	Mar-04
eighted Average Rates			
Overall	17.17	19.32	19.10
Public Sector	15.78	19.19	18.56
Private Sector	17.89	19.38	19.30
stalment	25.17	24.01	24.23
rtgage	19.01	21.19	20.88
rsonal	27.39	29.74	29.89
mmercial	14.21	15.49	15.17
cal Govt. & Other Public Entities	14.70	16.78	16.65
ntral Government	18.32	23.75	22.07

Within the context of continued stability in the foreign exchange market, foreign currency loans extended to the private sector showed further growth during the review period. Foreign currency loans expanded by US$15.7 million for the quarter ended March 2004, representing a significant improvement when compared with the US$4.8 million growth experienced in the corresponding period of 2003. The *Transport, Storage & Communication* sector recorded the largest proportion of the net expansion in foreign currency loans, accounting for US$9.6 million or 61.0 per cent. The large increase in credit to this sector was used to bolster the working capital of the main air carrier. Loans to the *Tourism* and *Distribution* sectors increased by US$8.7 million and US$4.8 million, respectively, while the remaining sectors either declined or remained flat **(see Table 1.7).** Against the background of the continued expansion of foreign currency loans, the proportion of these loans to total loans increased to 36.7 per cent at end March 2004 from 35.4 per cent observed at end March 2003.

The continued expansion of foreign currency loans was facilitated by stability in the cost of foreign currency credit for the review quarter. The weighted average loan rate on foreign currency loans remained flat at 8.8 per cent at end February 2004 relative to the outturn at end December 2003 but was less than the 9.0 per cent recorded at end February 2003. The weighted average loan rate on total private sector credit decreased to 19.30 per cent at the end of March 2004 from 19.38 per cent recorded in December 2003 but was higher than the 17.17 per cent recorded at end March 2003. The weighted average lending rate on loans extended to the Central Government declined to 22.07 per cent at end March 2004 from 23.75 per cent at the end December 2003, but was higher than the 18.32 per cent at end March 2003

Figure 1.7
Commercial Banks' Weighted Average Loan Rate
February 2000 to February2004

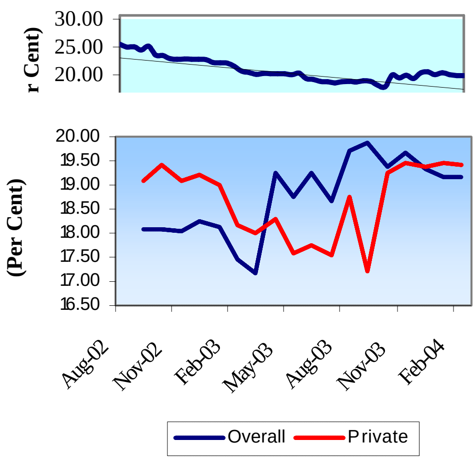
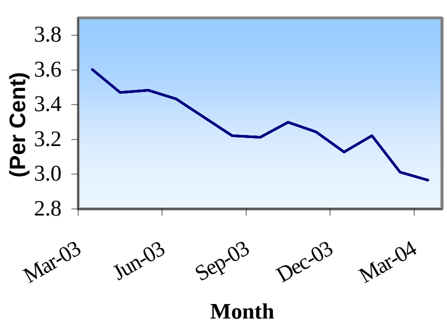


Figure 1.8
Commercial Banks Past due Loans Three Months and over to Total Loans
March 2003 to March 2004



(see **Table 1.8**). This result is consistent with a reduction in demand for domestic loans by the Central Government.

Following the increase in the average loan rate observed in the first half of the FY 2003/04, the overall average loan rate resumed a downward trajectory observed since the mid 1990's. The general reduction in the overall weighted average loan rate facilitated the continued expansion of loans extended over the last four years (see **Figure 1.7**).

The quality of the loan portfolio of commercial banks continued to show improvement as reflected in the ratio of past due loans (over three months) to total loans that declined to 3.0 per cent at end March 2004. This represented an improvement from the 3.1 per cent ratio observed at the end of December 2003 and also the 3.6 per cent obtained during the corresponding period in 2003. (see **Figure 1.8**). For the review period, of the six banks in operation, two reflected ratios in excess of 3.0 per cent. However, the outturn for these two banks remained well within the international benchmark of 10.0 per cent.

Bond Market

The raising of new debt by the Government of Jamaica (GOJ) on the external market during the March quarter eased the pressure on the domestic debt market thereby facilitating a significant decline in interest rates. The BOJ reduced interest rates on its open market instruments six times during the quarter. These rate reductions which occurred against the background of a strong NIR, buoyant tourism inflows, improved prospects for growth and the signing of the MOU[2] led to renewed investor confidence in the domestic currency. Fairly high liquidity conditions in the domestic market led to an overall decline in rates in the private money markets. In addition, the performance of GOJ global bonds on the international capital market continued to improve, as reflected in higher prices in the secondary market over the quarter.

Developments in the bond market during the March 2004 quarter were influenced by the success of the GOJ in raising €200.0 million (US$253.0 million) through the issue of a five-year Eurobond on 11 February 2004. This inflow represented a sizeable portion of Government's financing requirements and served to ease the pressure in the domestic debt market. This inspired investor confidence in local GOJ instruments and facilitated the public issue of Government securities at progressively lower yields. Relative stability in the foreign exchange market and fairly high Jamaica Dollar liquidity also influenced the rate at which interest rates declined during the quarter.

[2] Memorandum of Understanding between the Government and trade unions representing public sector employees.

BOJ cuts interest rates on six occasions

Between January and March 2004, the BOJ effected a total of six interest rate cuts on its open market instruments. The rate adjustments constituted a further step in the process of normalizing the yield curve on OMO instruments. Overall, reductions were made on all tenors with the sharpest declines occurring on the longer tenors (See **Table 1.9**). The reduction on the 30-day and 60-day rates was the first since the start of the fiscal year.

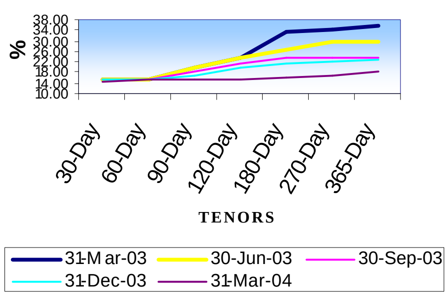
Table 1.9

BOJ End of Period Reverse Repurchase Rates December 2003 – March 2004

	31 Dec	31 Jan	29 Feb	31 Mar
30 Days	15.00	14.85	14.85	14.85
60 Days	15.30	15.00	15.00	15.00
90 Days	17.00	15.10	15.10	15.10
120 Days	20.00	16.00	15.50	15.50
180 Days	21.00	17.25	16.00	16.00
270 Days	22.00	18.75	17.25	16.95
365 Days	23.00	20.00	18.50	17.95

The rates on the 270-day and 365-day open market instruments were reduced by 5.05 percentage points to 16.95 per cent and 17.95 per cent, respectively, for the quarter. The 180-day instrument was reduced by 5.00 percentage points from 21.00 per cent at end December. For fiscal year 2003/04, the 180-day, 270-day and 365-day tenors were reduced by 17.15 percentage points, 17.55 percentage points and 18.00 percentage points, respectively. The large reduction in interest rates on these tenors represented a decline in the premium offered to hold instruments for longer periods (See **Figure 1.9**).

Figure 1.9
BOJ OMO Yield Curve



High demand for 365-day instrument

Despite the lowering of the premium on the longer tenors, there was a high demand for the 365-day instrument, which accounted for 43.74 per cent of the total take up during the March quarter (See **Table 1.10**). This was in contrast to the previous quarter when placements were concentrated in shorter tenors, particularly the 180-day tenor. The increase in demand for longer-term instruments could be attributed to investors' anticipation of further interest rate reductions. Subscriptions to the 30-day instrument were also high, accounting for 23.76 per cent of total take up during the quarter. This may have reflected some degree of caution by investors in light of the impending budget presentation in April 2004 as well as, prudent liquidity management. Incremental placements in open market instruments were

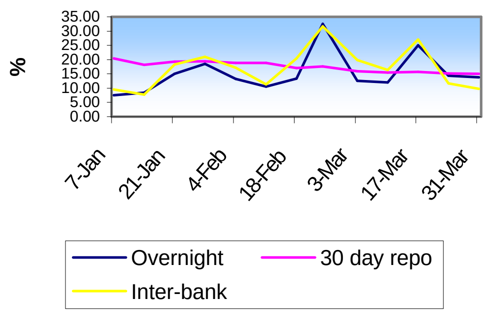
Table 1.10

Placements and Maturities* in BOJ OMO Instruments January – March 2004

	Maturities (%)	Placements (%)
30 Days	17.98	23.76
60 Days	3.10	2.89
90 Days	6.00	4.63
120 Days	6.26	4.82
180 Days	15.68	10.01
270 Days	11.71	10.15
365 Days	39.28	43.74

**Excludes overnight transactions during the period*

Figure 1.10
Private Money Market
Average Maximum Rates
January – March 2004



funded from the liquidity injected through the increase in the NIR as well as, currency reflows.

The evolution of interest rates in the private money market was influenced by buoyant Jamaica Dollar liquidity and the reductions on BOJ's open market instruments. The average maximum interest rate on the 30-day private repurchase instrument decreased consistently from 22.50 per cent at end December to 15.05 per cent at end March, constituting a decline of 7.45 percentage points (See **Figure 1.10**). Average maximum rates in the overnight and inter-bank markets generally remained below the 30-day rate during the first half of the quarter, averaging 12.36 per cent and 15.07 per cent, respectively. This was followed by wide fluctuations in the latter half of the quarter, with the overnight rate peaking at 32.50 per cent and the inter-bank rate marginally below at 31.67 per cent. The peaks represented the effects of a concentration of liquidity in a few institutions, rather than overall tight liquidity conditions in the market. High open market maturities towards the end of March, arising from instruments invested at 35.95 per cent in the previous year, allowed for a wider distribution of liquidity and a sharp decline in rates. The quarter closed with the overnight and inter-bank rates again falling below the BOJ 30-day rate to 13.80 per cent and 9.80 per cent, respectively. In addition, there was evidence of some switching from money market instruments, as there were periods when the 30-day rate in the private market fell below the BOJ 30-day rate, prompting some investors to opt for BOJ 30-day instruments.

Table 1.11

GOJ Public Domestic Debt Raising January - March 2004	Amount Allotted (J$MN)	Amount Maturing (J$MN)	Net Issue (J$MN)
Treasury Bills	1 550.0	1 200.0	350.0
LRS	0.0	10 273.1	-10 273.1
Debenture	5 417.2	7 162.5	-1 745.3
US$ Indexed Bonds	0.0	761.3	-761.3
Investment Bonds	5 864.0	0.0	5 864.0
Total	**12 831.2**	**19 396.8**	**-6 565.6**

The Government was less active in the local bond market in comparison with the previous quarter, having been able to borrow on international markets to support its financing requirements for the period. The remaining cash needs were funded through public issues of local currency instruments, which comprised Treasury Bills, three variable rate investment bonds and a debenture (See **Table 1.11**). The funds raised on the domestic market totalled $12 831.2 million compared to $18 812.4 million in the December quarter and represented a net amortization of $6 565.6 million.

Government issues longer tenors at lower rates.

The high liquidity conditions prevailing throughout the March quarter, coupled with the reduced demand for funds by the Government, facilitated the issue of longer tenors at lower rates. At the start of the quarter, the Government offered a 22-month instrument at a rate of 22.125 per cent, with repricing, but by the end of the quarter, the Government was able to contract debt at 16.31 per cent on a 30-month instrument.

Prior to floating the international bond, the GOJ issued two local instruments. The first was a 22-month variable rate investment bond issued at 22.125 per cent with repricing of 1.75 percentage points above the weighted average yield applicable to the six-month Treasury Bill. The instrument raised $3 168.7 million. Subsequently, the Government offered a fixed rate investment debenture at the same initial coupon with a tenor of 24 months. The rate was fixed as this was more attractive to market participants. However, the subscription period for the debenture coincided with the issue of the new Eurobond resulting in increased participation relative to expectations, as local investors sought to lock-in to the high interest rates on the debenture in anticipation of an

Table 1.12

Treasury Bill Auctions & Maturities January - March 2004				
Issue Date	**Tenor (days)**	**Avg. Yield (%)**	**Allotment (J$MN)**	**Amount Maturing (J$MN)**
30 Jan. 04	182	17.15	500.0	500.0
27 Feb. 04	182	16.31	400.0	400.0
26 Mar. 04	91	15.23	250.0	300.0
26 Mar. 04	182	15.57	400.0	-
Total			**1 500.0**	**1 200.0**

imminent decline in interest rates. The debenture was therefore closed two days early having raised $5 417.2 million.

Subsequently, two longer tenor investment bonds were issued in February and March and priced at lower rates. A 48-month variable rate investment bond offered between 23-27 February had an initial interest rate of 17.00 per cent with repricing at 1.50 percentage point mark up over the average yield on the 6-month Treasury Bill. The second bond, floated between 5-9 March, carried a tenor of 30 months and an initial interest rate of 16.31 per cent, with similar repricing.

The average yield on successive auctions of Treasury Bills fell steadily throughout the quarter (See **Table 1.12**). At end December 2003, the 182-day Treasury Bill rate stood at 22.05 per cent, but declined to 17.15 per cent by end January. This was 10.0 basis points below the comparable BOJ instrument. By end March, the average outturn had declined further to 15.57 per cent, 43 basis points below the rate on the BOJ instrument of similar tenor. The average yield on the 182-day Treasury Bill fell by 648 basis points, outpacing the decline of 168 basis points in the previous quarter.

Government raises €200 million on the international capital market.

The Government borrowed from international markets on 11 February, the first time since June 2002, with the issue of a 5-year Eurobond. The bond, which raised €200 million, was priced to yield 10.63 per cent, and matures on 27 February 2008.

The ability to float the bond in the context of improving macroeconomic fundamentals, occurred against a background of declining US interest rates, high liquidity and renewed interest in emerging market debt. Jamaica

Figure 1.11
GOJ US Dollar-denominated Global Bond Prices April 2003 – March 2004

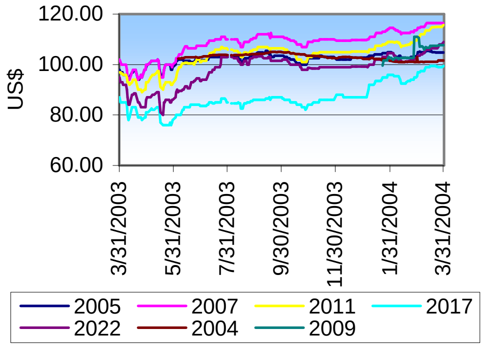
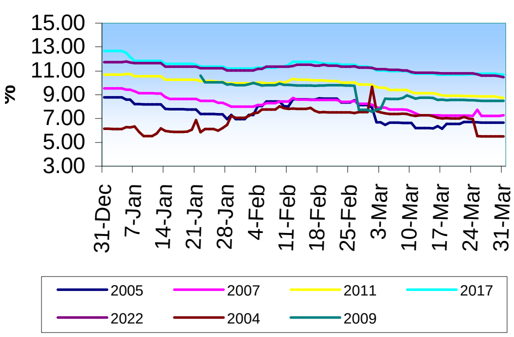


Figure 1.12
GOJ US Dollar-denominated Global Bond Yields January – March 2004



proved a good investment risk as it has never defaulted on its debt repayment. Residual concerns about Jamaica's macroeconomic fundamentals were reflected in the high coupon rate offered on the bond. The coupon was 1.38 percentage points above a recently issued Brazilian bond.

The Government raised an additional US$50.00 million through a 4-year bond floated through RBTT Merchant Bank of Trinidad and Tobago in the Trinidadian market in early March. The bond was priced to yield 8.00 per cent.

During the quarter, prices increased on all GOJ global bonds except the 2004 bond, which is due to mature in August. The highest increase was noted on the 2017, which advanced by 14.37 per cent to 99.50 (See **Figure 1.11**). In the two months following its issue, the new Eurobond gained 8.19 per cent above its issue price to close the quarter at 107.74. Obversely, yields on global bonds trended downwards, declining by 1.95 percentage points on average across all maturities, excluding the 2004 bond (See **Figure 1.12**).

In early February, subsequent to the announcement of the Government's borrowing on the international market, Standard and Poor's downgraded Jamaica's long-term local currency sovereign debt to B from B+. The rating agency also changed the country's long-term sovereign outlook from stable to negative. The reasons cited for the downgrade included the high government debt, Jamaica's susceptibility to external shocks and limited fiscal flexibility. However, Moody's Investor Services was slightly more optimistic in its subsequent assessment of Jamaica, maintaining a stable outlook for Jamaican debt.

S&P downgrade had marginal impact

Despite the reports, the impact on the performance of Jamaica's global bonds was marginal, as investors had already taken account of these factors in their risk assessment and the rating downgrade was given only on the local debt. In addition, there were indications within the economy that there would be greater consensus among the major stakeholders in achieving the macroeconomic targets. Hence, notwithstanding the rating downgrade, on the day following the announcement, the price of the 2011 rose 25 cents on the dollar to 109.00. Subsequently, the 2011 price increased by a further 6.75 dollars to 115.75, representing an increase of 6.4 per cent since the downgrade.

The prospects for emerging market debt, on the whole, remain positive with international reports highlighting the current buoyancy of emerging markets in a context of high liquidity and declining yields. While such conditions persist, the outlook for Jamaican global bonds is favourable, especially given improvement in the economic fundamentals.

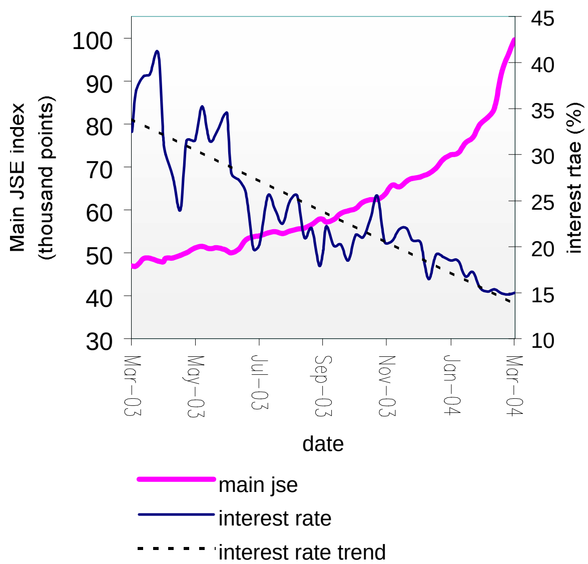
Stock Market

The stock market performance for the fiscal year 2003/04 was buoyed by phenomenal market growth in the March 2004 quarter. The growth in the review quarter was mainly attributable to a sequence of interest rate reduction, in an environment of relative foreign exchange market stability, impressive profit positions for listed entities and positive expectations about macroeconomic conditions in the near-term.

Accommodative monetary policy intensifies stock market Bull run

All measures of stock market performance reflected the phenomenal increase in the market during the review quarter and the fiscal year 2003/04. The main JSE index increased by 47.4 per cent during the quarter and 112.1 per cent for the fiscal year 2003/04 to record a historic high of 99 630.22 points at end March 2004 (see **Figure 1.13**). The All Jamaica Composite and the Jamaica Select indices recorded significant increases of 68.6 per cent and 64.6 per cent, respectively, for the quarter and 110.2 per cent and 104.2 per cent, respectively, for the fiscal year. Market capitalization stood at $771 836.9 million at end March 2004, reflecting a 50.5 per cent increase for the quarter and a 117.1 per cent increase for the fiscal year. The magnitude of the growth in all the indicators is suggestive of strong investor interest particularly in domestically owned entities.

Figure 1.13
Main JSE index and interest rate
March 2004 quarter[3]



Source: Jamaica Stock Exchange and BOJ

The gains in the indices were accompanied by buoyant market activity. During the March 2004 quarter, a total of 1 446.3 million units were traded at a value of $7 548.8 million. This compares favourably with the 712.0 million units traded at a value of $4 127.5 million in the March 2003 quarter and the 513.0 million units traded at a value of $3 545.3 million in the quarter ended December 2003.

[3] The interest rate on the 30-day private market repurchase agreement was used for this analysis.

Table 1.13
Nominal Market Returns
FY 2003/04 (%)[4]

Market	Q1	Q2	Q3	Q4	FY
Ja equity	**7.4**	**14.4**	**17.0**	**47.4**	**112.1**
T&T equity	-0.7	7.1	15.7	20.9	48.8
B'dos equity	-5.7	5.7	29.5	5.8	36.7
Ja foreign exchange	4.9	1.2	1.5	0.6	8.5
Ja. fixed income	7.2	6.3	5.5	4.1	32.7

Source: BOJ and Regional Stock Exchanges

Table 1.14
Top Ten Price Gains
March 2004 quarter

Sectors / Companies	Price at 31-Mar-04 $	Qtr. Change %
Financial Services Sector		
BNS	46.51	103.6
DB&G	14.40	92.0
JMMB	16.65	90.29
First Life	29.50	113.6
Manufacturing		
Carib Cement	9.00	157.1
Ja Broilers	2.91	95.3
Conglomerates		
Ja Producers	44.00	95.6
Pan Jam	38.00	103.1
Telecommunication		
Gleaner	2.31	84.8
Other services		
Pegasus Hotel	9.00	164.7

The widespread interest in equity investments was propelled by the steady reduction in the returns from other major domestic financial instruments, along with liquid money market conditions. A decline in the return from fixed income investments was influenced by the relatively low demand for government financing from the domestic market, and the reduction in the interest rates on BOJ open market instruments during the quarter. Concurrently, the relative stability in the foreign exchange market limited the Jamaica Dollar return available from holding foreign currency. In addition to offering higher returns than other domestic financial assets, Jamaican equities outperformed equities in other regional stock exchanges. This performance was reflected in the average return of 47.4 per cent on Jamaican equities, relative to the 20.9 per cent return and the 5.8 per cent return attained from equities listed on the Trinidad and Tobago and Barbados stock exchanges, respectively. The relatively high returns on Jamaican equities were also evident for the fiscal year (see **Table 1.13**).

During the review quarter, stock price increases were observed for 36 of the 38 stocks listed on the Exchange. The financial sector accounted for four of the ten stocks with the highest price gains (see **Table 1.14**). At the end of the review quarter, financial sector entities accounted for approximately 78.0 per cent of the overall market capitalization. Of this share, 53.0 percentage points were due to financial entities with dominant external ownership (see **Figure 1.14**).

The performance of the entities listed on the JSE was influenced by positive news related to consolidations and earnings. However, the impressive earnings were not commensurate with the price increases exhibited during the period. As depicted in Figure 1.14, the end-March 2004

[4] The equity returns represent capital gains, and were computed as the percentage increase in the main index of each stock exchange. The domestic foreign exchange return is also a capital gain, calculated as the rate of depreciation for the different periods. The fixed income return is the pre-tax return, computed as the equivalent yield that is derived from the rate on six-month Government Treasury Bills.

Figure 1.14
Share of Market Capitalization
End March 2004

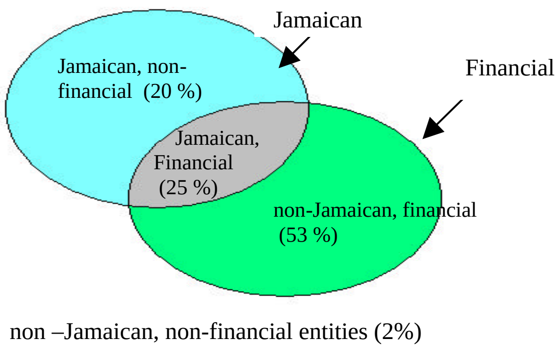
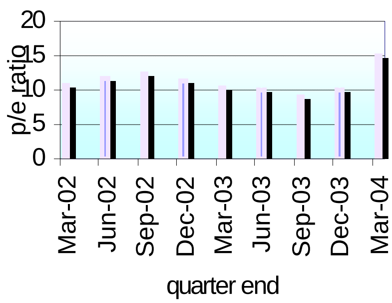
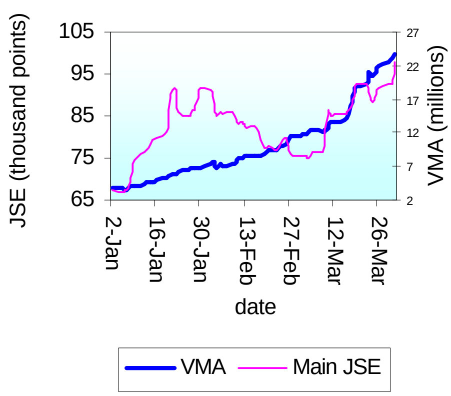


Figure 1.15
Approximation of the average stock market price-earnings (P/E) ratio
(March 2002 to March 2004)



Source: Jamaica Stock Exchange

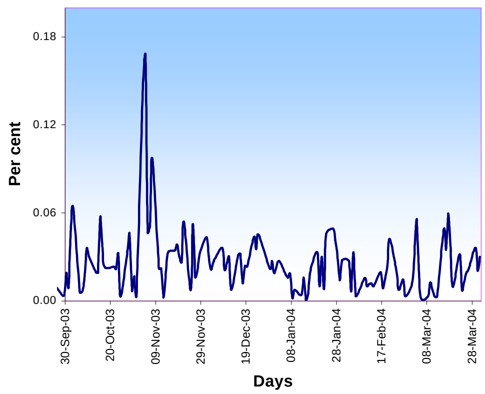
Figure 1.16
Two-Week Volume Moving Average (VMA)
March 2004 quarter[1]



quarter average market price-earnings ratio was significantly higher than that at the end of the March quarters in the two previous fiscal years. Nevertheless, the increase in stock prices is indicative of the attractiveness of the stock market as a viable source of capital for new and existing productive entities.

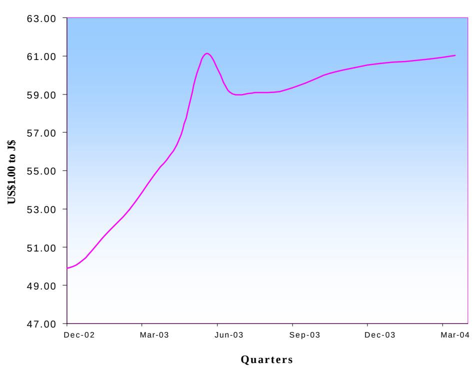
A favourable macroeconomic environment would support the continued buoyancy in stock prices. The upward trend in the average daily volume traded on the JSE since the start of 2004 reveals the existence of equity demand that can sustain the continued growth of the market (see **Figure 1.16)**. Continued reduction in interest rates, along with foreign exchange market stability will continue to enhance the attractiveness of stocks relative to other financial assets. An accommodative macroeconomic environment, along with institutional improvements such as the planned increase in the number of brokers on the Exchange, will help to deepen the market.

Figure 1.17
Exchange Rate Volatility (*)



(*) Volatility is calculated as the daily standard deviation of the daily logarithmic

Figure 1.18
Weighted Average Selling Exchange Rate (period average, US$1.00=J$)



Foreign Exchange Market

The foreign exchange market was characterized by relative stability in the March 2004 quarter (see *Figure 1.17****), which contrasts with its relatively unsettled state during the comparable period of 2003. The weighted average selling rate of the Jamaica Dollar vis-à-vis the US dollar depreciated by 0.6 per cent during the quarter, which compares favourably with respective depreciations of 1.4 per cent and 9.4 per cent observed for the December and March quarters in 2003. During the review quarter, the foreign exchange market was associated with favourable supply conditions arising primarily from significant capital inflows, as well as, higher earnings from exports of goods and services. The conditions in the market also reflected improved confidence in the macroeconomy.***

The foreign exchange market was generally stable during the March quarter, reflected in a mild depreciation of 0.6 per cent in the weighted average selling rate as well as, in a narrowing of the bid-ask spread. The weighted average selling rate of the Jamaica Dollar vis-à- vis the US dollar depreciated to US$1.00 = J$61.02 at end-March 2004 from US$1.00=J$60.61 at end-December 2003. The relatively stable conditions during the review quarter compare favourably with respective depreciations of 1.4 per cent and 9.4 per cent in the December and March quarters of 2003 (see **Figure 1.18**). There was an overall depreciation in the exchange rate of 7.8 per cent for the fiscal year, relative to a depreciation of 15.3 per cent for fiscal year 2002/03.

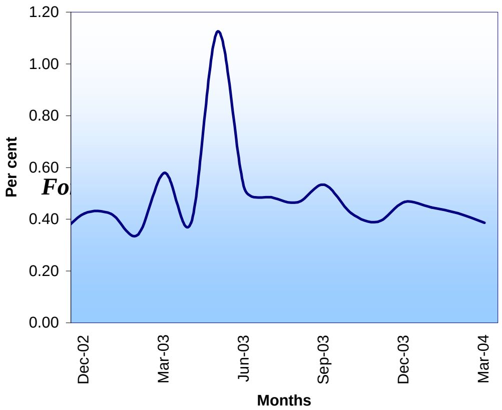
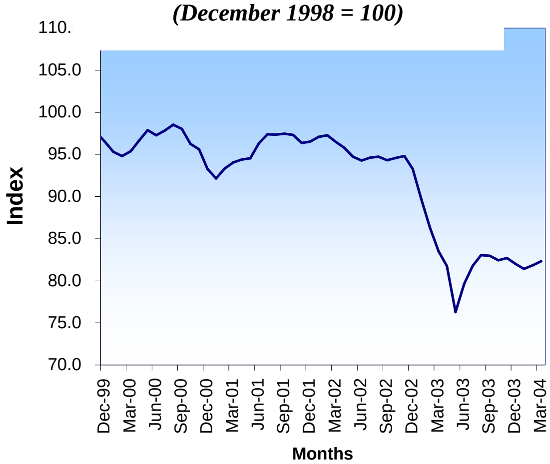


Figure 1.20
Real Effective Exchange Rate Index**
(December 1998 = 100)



(**) A decline in the REER index represents an improvement in external competitiveness.

The relative stability in the market was also reflected in a narrowing of the spreads on foreign exchange transactions in the review quarter. The bid-ask spread as a per cent of the buying rate averaged 0.40 per cent for the March 2004 quarter, marginally below the average of 0.41 per cent in the preceding quarter and was the lowest quarterly average for FY2003/04 (see **Figure 1.19**). Notwithstanding the decline in the spread in the review quarter, an average of 0.49 per cent was observed for the fiscal year, significantly above the 0.32 per cent recorded during FY 2002/03.

The Real Effective Exchange Rate (REER)[1] index increased by 0.3 per cent for the March 2004 quarter, representing a marginal loss in external competitiveness (see **Figure 1.20**). The small real appreciation in the exchange during the review quarter ensued primarily from higher domestic prices, as well as the depreciation of the weighted average exchange rate index of Jamaica's non-United States trading partners. The depreciation of the local currency against the US dollar served as a partial countervailing influence. Notwithstanding the slight appreciation in the REER for the review quarter, the twelve-month point-to-point movement in the index as at March 2004 reflected a 1.4 per cent gain in external competitiveness.

Stable conditions in the foreign exchange market during the review quarter were associated with significant foreign currency supply. However, there

[1]See Volume 4 No.1 for more details on the real effective exchange rate.

was a marginal increase in foreign currency demand to pay for imports, in particular fuel.

The Government of Jamaica (GOJ) secured US$303.0 million through foreign loans in the international and regional capital markets during the review quarter. A Euro-bond, which was floated on the international market, raised €200.0 million (US$253.0 million), while the RBTT Merchant Bank provided US$50.0 million. Also contributing to the growth in inflows during the quarter were estimated increases of US$48.1 million (14.7 per cent), US$46.2 million (14.5 per cent) and US$18.9 million (6.1 per cent) in merchandise export, private remittances and tourism, respectively, relative to the March 2002 quarter. Earnings from tourism are estimated to have benefited from respective increases of 7.5 per cent and 1.3 per cent in stopover and cruise visitor arrivals in the review period, relative to the March 2003 quarter (see **Box 2)**. Influencing the growth in earning from exports were significant expansions in alumina, coffee and sugar volumes. In addition, earnings from alumina and coffee exports reflected higher prices.

Improved fundamentals spurs confidence.

Improved conditions in the foreign exchange market were also underpinned by periodic relatively tight Jamaica Dollar conditions faced by some market participants, despite the market as a whole being fairly liquid during the period (see **Bond Market**). As a result, there were significant foreign exchange sales to the Bank. During the review quarter, the Bank net purchased US$216.4 million from the market, relative to net purchases of US$45.4 million in the March 2003 quarter, and net sales of US$48.9 million during the December 2003 quarter.

Table 1.15

Net International Reserves (US$MN)			
Month	**Stock**	**One Month Change**	**Three Month Change**
Jan-03	1510.3	-86.7	-145.0
Feb-03	1252.9	-257.3	-361.5
Mar-03	1339.7	86.7	-257.3
Apr-03	1362.1	22.4	-148.2
May-03	1233.3	-128.8	-19.6
Jun-03	1127.4	-105.9	-212.3
Jul-03	1124.9	-2.5	-237.2
Aug-03	1080.1	-44.8	-153.2
Sep-03	1182.6	102.5	55.2
Oct-03	1131.1	-51.5	6.2
Nov-03	1103.3	-27.8	23.2
Dec-03	1165.0	61.7	-17.6
Jan-04	1219.6	54.6	88.5
Feb-04	1474.0	254.3	370.7
Mar-04	1568.7	94.7	403.7

The *Authorized Dealers* recorded lower net sales of US$154.8 million during the March 2004 quarter, relative to US$196.6 million in the comparable period of 2003. Total volumes purchased and sold in the review period increased by US$64.0 million and US$22.2 million to US$814.5 million and US$969.3 million, respectively. The increase in inflows to this segment of the market ensued principally from higher export earnings and private remittance inflows, as well as, an acceleration in private capital inflows. Higher foreign exchange outflows during the review quarter were associated with higher private capital transactions as well as, sales to the BOJ.

The operations of *Cambios* resulted in net foreign currency purchases of US$73.3 million, US$61.5 million above the March 2003 quarter. Total sales by *Cambios* contracted by US$92.6 million to US$383.4 million while purchases declined by a lesser amount of US$31.1 million to US$456.7 million during the March 2004 quarter.

In the context of increased foreign exchange inflows to the economy, the NIR at end-March 2004 stood at US$1 568.7 million, an increase of US$403.7 million, relative to end-December 2003 (see **Table 1.15**). At the end of the quarter, the gross reserves of the BOJ increased by US$400.5 million to US$1 596.8 million, representing 16.7 weeks of projected goods and services imports.

Box 1: Recent Trends and Prospects in the Balance of Payments

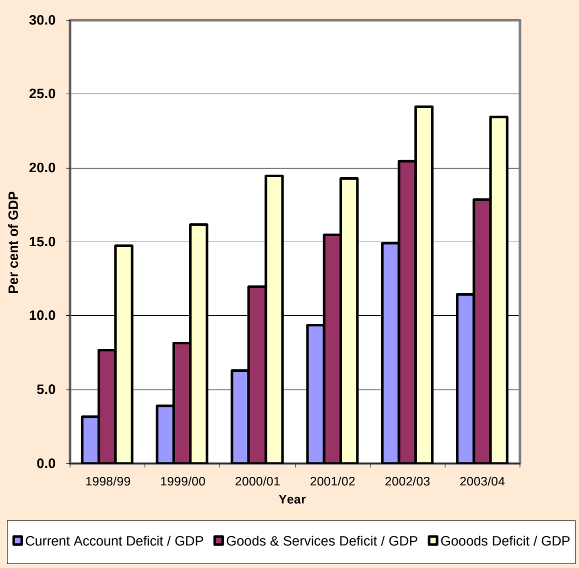
Introduction

The current account deficit of the Balance of Payments (BOP) is estimated to have improved in FY 2003/04. This followed a progressive deterioration in the current account between FY 1998/99 to FY 2002/03. Recent announcements of significant investments in the tourism and mining sectors suggest that the BOP is likely to further improve into the medium term. Improvements in the BOP over the medium term are also predicated on a continuous moderation in public sector demand, which will result in a gradual reduction in the level of dissavings in the economy.

Balance of Payments Review: Past Trends

Jamaica's current account deficit deteriorated progressively, moving from 3.2 per cent of GDP in FY 1998/99 to 14.9 per cent of GDP in FY 2002/03 (see **Figure 1**).

Figure 1.
Balance of Payment Trends (FY 1998/99 to FY 2003/04)



The deterioration in the current account over the period was driven by domestic as well as external shocks. The main domestic factor influencing the current account deficit was an increase in the level of public sector dissavings, as fiscal imbalances occurred during the review period, climbing to 8.3 per cent of GDP in FY 2002/03.

In relation to external factors, there were adverse movements in the terms of trade, with an average annual decline of 1.9 per cent experienced during the period FY 2000/01 to FY 2003/04. The most notable factors were lower metal prices, higher oil and grain prices, as well as shocks to the local travel industry and the continued decline in the garment industry. The most significant impulse came from fuel prices, which increased over the review period at an average annual rate of 14.0 per cent. Despite these increases, the volume of fuel imports rose, on average, by 6.5 per cent, resulting in an annual average increase of the nation's fuel bill of 19.2 per cent. Among the grain prices, wheat and soybean rose at annual average rates of 6.9 per cent and 0.5 per cent, respectively, during the period FY 1999/00 and FY 2002/03. Alumina prices, on the other hand, experienced respective declines of 7.0 per cent and 4.4 per cent in FY 2001/02 and FY2002/03, which led to lower alumina export receipts during those years.

Tourism receipts declined during FY 2001/02 and the first quarter of FY 2002/03, the result of a recession in the U.S. economy and the repercussions of events of 11 September 2001. In addition, goods exports were negatively affected by the continued downsizing of the garment industry, as firms relocated their operations to countries with lower operating costs.

The current account deficit over the period was principally financed by private sector capital inflows, along with net external borrowing by the Government. In this context, the NIR increased steadily up to FY 2001/02, but fell in FY 2002/03 as a result of net official external amortization during the year. A significant recovery in the NIR occurred in FY 2003/04, influenced by the net increase in official capital inflows and continued strong private capital inflows (see **Table 1**).

Table 1

Capital Inflows & NIR (FY1998/99 to FY 2002/03) (US$M)

Fiscal Year	Net Official Capital Inflows	Net Private Capital Inflows	Change in NIR
1998/99	-89.6	304.6	-13.6
1999/00	-123.2	535.7	122.0
2000/01	342.0	744.3	582.8
2001/02	590.5	853.0	655.3
2002/03	-226.5	889.7	-601.9
2003/04	134.0	1 046.0 [/1]	228.9

[/1] *Estimate*

An improvement in the current account deficit is estimated for FY 2003/04 (see **Table 2**). Preliminary estimates for the fiscal year to December 2003 indicate that the current account deficit improved relative to April to December 2002 by US$245.8 million to US$950.1 million. This reflected improvements in the balances on the goods, services and current transfers sub-accounts. The outturn on the goods sub-account was influenced by a dramatic reduction in imports. In addition, the value of alumina exports expanded by 13.6 per cent given respective increases of 6.2 per cent and 6.9 per cent in export prices and volume. The improvement in the surplus on the services sub-account was partly due to increases of 13.0 per cent and 7.8 per cent in tourist arrivals and total visitor expenditure, respectively.

The improvement in the current account is estimated to have continued in the fourth quarter of FY 2003/04 to result in a current account deficit of 11.5 per cent of GDP.

Outlook: FY 2004/05 to FY 2007/08

The Bank estimates further improvements in the current account and the overall BOP over the medium term. Gradual improvements in the current account are projected for the period FY2004/05 to FY2006/07, and significant improvements expected in FY 2007/08.

This medium term outlook for the balance of payments is set in a context of an anticipated acceleration of growth in the world economy driven by the expected recovery in the United States economy. Inflation in the main industrial economies is forecasted to remain low. Moderate increases in interest rates and an appreciation of the US dollar against other major currencies are also anticipated[6].

Table 2.

Selected Balance of Payments Indicators (FY1998/99 to FY 2003/04)						
	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04[/1]
Current Account/GDP	-3.2	-3.9	-6.3	-9.4	-14.9	-11.5
Fiscal Balance/GDP	-6.7	-4.1	-0.9	-5.6	-8.4	-5.8
Private Sector Balance/GDP	3.5	0.1	-5.4	-3.8	-6.5	-5.7
NIR (US$M)	581.5	703.5	1286.3	1941.7	1339.8	1568.7
Change in NIR ("-" equal drawdown)	-13.6	122.0	582.8	655.3	-601.9	228.9
Gross Reserves (US$M)	700.1	801.3	1361.9	2000.3	1382.5	1596.7
Gross Reserves in Wks of Imports and Services	9.1	10.0	15.7	23.0	14.3	16.6
Goods Import /GDP	34.7	36.3	38.7	36.7	39.7	40.7
Goods Export/GDP	20.0	20.2	19.2	17.4	15.6	17.2
Private Remittances/GDP	8.8	9.6	10.6	12.4	15.1	17.3

[/1] *Estimate*

The BOP outlook is also predicated on the assumptions of a gradual reduction in oil prices, and the absence of significant increases in the prices of international grains and other imported commodities. Sustained strengthening in aluminium prices is anticipated in view of improved economic prospects for the major industrialised countries and indications of continued robust growth in the economy of China.

In the context of projections for sustained improvement in the fiscal balance, lower levels of public sector dissavings will provide some amount of compression in aggregate demand in the domestic economy. This should enhance the prospects for improvement in the current account deficit. From the supply side, alumina export receipts are forecasted to increase in FY 2004/05, due to the addition of 250,000 tonnes in production capacity at JAMALCO. Continued expansion in alumina output over the medium term is predicated on a major investment project planned for JAMALCO, and scheduled to commence in 2005. Further investment within the mining sector is expected, given the favourable conditions in the world economy and the proposed adjustments to the fiscal regime governing mining operations in Jamaica.

Increased room capacity within the tourism industry is expected from the completion of significant investment projects already started and additional projects scheduled to come on stream over the next three years. Higher levels of tourist arrivals are anticipated, conditional on higher growth in the global economy and the success of current attempts to improve the competitiveness of Jamaica's tourism product.

Given the significant projects currently expected, foreign direct investment inflows are projected to accelerate over the medium term. With continued improvement in the fiscal accounts the Government should also be able to refinance its maturing debt obligations in the international capital market. In this context, the gross reserves of the Bank are expected to remain above the international benchmark of 12 weeks of goods and services imports.

The positive prospects for the current account deficit are conditioned on a number of factors.

[6] Foreign Exchange Consensus Forecast

These include favourable terms of trade and a sustained reduction in interest payments on government external debt. However, given the high levels of Foreign Direct Investment (FDI) inflows expected, there could be a rise in investment income outflows and imports.

Conclusion

The expectations of buoyant FDI inflows, strong export earnings and improvements in the government's fiscal position should augur well for the continued improvement in the Balance of payments over the medium term.

***Box 2*: The Exchange Rate Regime and Monetary Policy**

Introduction

There is worldwide evidence that countries that are able to maintain an exchange rate peg with a stable international currency for long periods enjoy monetary conditions that are, on average, very similar to those of the 'host' currency. Their inflation rates and interest rates tend to be closely linked except during periods of local supply shocks or deviations in tax policies.

The reason for this is that by establishing and maintaining the peg, the country would have opted to give up discretion over monetary and exchange rate policy and would therefore have opted to be governed by the monetary and exchange rate policies of the host country. Except for the name of the currency (and restrictions on convertibility) there should be no surprise that countries that share what is essentially the same currency share similar experiences with respect to inflation.

A Historical Perspective

Prior to 1973 when the Bretton Woods system broke down, all national currencies were joined together by a system of fixed exchange rates. After that time, the major currencies floated against each other and many small countries chose to peg to one or a combination of these based on historical or trading patterns. These pegs have been successfully sustained by those countries which

- Maintained a fiscal stance that was circumscribed by balanced budgets or, by limited borrowing from the central bank;
- Absorbed any major balance of payments shocks that they experienced by accepting lower employment and output levels without an attempt to counteract these;
- Maintained sufficient reserves to finance imports and external obligations;
- Maintained effective controls on external transactions, especially capital movements;
- Maintained conservative, often non-market, limits on money and credit.

Once an official exchange rate is no longer seen as "fixed" but has been demonstrated to be readily adjustable, the establishment of a parallel market, the pass through of the more depreciated rate to inflation, the tendency towards hoarding, the emergence of payment arrears, etc. all make the establishment of a new peg tenuous and costly.

Jamaica went through these experiences towards the end of the 1980s. Having floated the Jamaica Dollar in 1991, it took some time for the system to stabilize. Interest rates were used quite actively in the stabilization process to manage excess demand for foreign currency. With relatively rapid exchange rate depreciation, domestic rates tended to be higher under the floating regime. The initial inflation generated by the liberalization process further increased the interest rates demanded by wealth-holders to invest in Jamaica Dollar instruments. Expectations adjusted slowly even with the tightening of monetary policy after 1995 and the fall in actual inflation. Thus, real rates remained high for much of the late 1990s. The path of Jamaica's interest rates can thus be largely explained as a reaction to the dramatic changes in inflation and inflation expectations that accompanied liberalization.

Current Realities

The current situation in Jamaica is one in which exchange rate variability is a decreasing factor in portfolio decisions. The record of monetary and price stability over the past five years and the outlook for the medium term do not suggest an exchange rate regime that is in urgent need of change. The expectation of relative stability (in itself stabilizing) is being supported by verifiable improvements in the fundamentals:

- Foreign reserve sufficiency to cover seasonal fluctuations and moderate shocks,
- The absence of Government borrowing from the Central Bank
- A significant reduction in the fiscal deficit and Government's stated strong commitments of its elimination by 2005/06
- The prospects for heavy capital flows which will build further capacity for sustained foreign exchange earnings.

However, even with the prospect of an extended period of exchange rate stability, low inflation and fiscal balance, **a return to a fixed exchange rate would not be the appropriate choice for a long run monetary arrangement for Jamaica**. As can be shown in the case of Argentina, a hard peg can buy low inflation and ease credit conditions but in a world where competing producers have floating rates, export competitiveness can become easily undermined with ruinous consequences. In an open trading environment – which is inevitable with or without the CSME (Caricom Single Market and Economy) – commodity price shocks and competitive losses translate directly into increased volatility in output: i.e. recessions and disruptions that are costly in terms of social dislocation. Even where these events are rare, an exchange rate that can remain competitive in well regulated markets send clear signals to investors about the sustainability of the profitability of exportables, as clearly as a fixed overvalued rate would send to importers. It is vital for an open trade-dependent economy like Jamaica to maintain a competitive exchange rate.

Jamaica has come a long way in the modernization of its financial system and the development of money and capital markets. This has, in turn, led to a corresponding increase in the sophistication of small, medium and institutional savers as well as regulators. To return to the type of regulation associated with fixed exchange rate regimes i.e. credit controls, administered interest rates, a heavy reliance on reserve requirements and other non market instruments would represent a long step backwards. With greater awareness of opportunities in the market and better understanding of market information, directing credit and investment and restricting choice in currency and instrument ought to be seen as repressive after the experience of a liberalized environment. This is yet another aspect of market oriented policy that may have to be reversed in the effort to prop up a fixed exchange rate regime.

Policy Reversals

All the countries with fixed exchange rates in the Caribbean also practice exchange control. This is necessary as speculative movement of capital can easily create the perception that the central bank cannot defend the currency indefinitely and thus trigger a devaluation/ currency crisis. Countries that have fixed rate regimes need to maintain capital controls as a safeguard. With the degree of financial integration that Jamaica now enjoys with the rest of the world, it would be difficult to envisage the re-imposition of barriers. Not only would this be anachronistic in the general thrust towards free trade and closer hemispheric integration but would also represent such a complete reversal of policy that investors would be reluctant to invest in Jamaica.

Beyond the issues of a fixed rate regime as a poor long term strategy and the shock to investors of erecting barriers to the movement of capital, there is a perception that by merely declaring the exchange rate to be officially fixed, this announcement would then allow the authorities to set domestic rates without any adverse consequences. By this reasoning, liquidity would accumulate without the need to reabsorb it, banks would have to reduce rates and, presumably, available balances would flow into production-related investments.

It would be instructive to simulate the impact of these developments on the balance sheet of the BOJ. As open market instruments mature, the free balances of commercial banks (high powered money) would rise thus allowing for a rapid expansion in credit. Given the structure of domestic production and the import intensity of both capital goods and raw materials, much of this expansion in spending would become claims on the reserves, which could easily be exhausted by the combination of heavy demand for imports and the increasing likelihood that the system may be unsustainable, thus leading to (illegal) hoarding. What would then loom is a repeat of 1990 with even more dire consequences.

The fact is that the exchange rate may be announced, but **it is the coordination and management of domestic spending consistent with this fixed rate that makes it sustainable.** Where this is done with or without a fixed rate, there is stability. The critical factor is not the choice of regime but the maintenance of macroeconomic balance.

2. Real Sector Developments

Table 2.1

SECTORAL CONTRIBUTION TO GROWTH March Quarter	Estimated Impact on Growth
1.GOODS	+ve
AGRICULTURE FORESTRY & FISHING	-ve
MINING & QUARRYING	+ve
MANUFACTURING	+ve
CONSTRUCTION & INSTALLATION	+ve
2.SERVICES	+ve
BASIC SERVICES	+ve
Electricity & Water	+ve
Transport Storage & Communication	+ve
OTHER SERVICES	+ve
Distributive Trade	+ve
Financing & Insurance Services	+ve
Real Estate & Business Services	+ve
Producers of Government Services	+ve
Miscellaneous Services	+ve
Households & Private Non-Profit Instit	+ve
TOTAL GDP	+ve

Table 2.2

SECTORAL CONTRIBUTION TO GROWTH Fiscal Year 2003/04	Estimated Impact on Growth
1.GOODS	+ve
AGRICULTURE FORESTRY & FISHING	+ve
MINING & QUARRYING	+ve
MANUFACTURING	+ve
CONSTRUCTION & INSTALLATION	+ve
2.SERVICES	+ve
BASIC SERVICES	+ve
Electricity & Water	+ve
Transport Storage & Communication	+ve
OTHER SERVICES	+ve
Distributive Trade	+ve
Financing & Insurance Services	+ve
Real Estate & Business Services	+ve
Producers of Government Services	+ve
Miscellaneous Services	+ve
Households & Private Non-Profit Instit	+ve
TOTAL GDP	

The Bank's preliminary assessment suggests an overall expansion in economic activity in the March 2004 quarter, relative to the March 2003 quarter. This expansion represented the sixth successive quarter of sustained economic growth observed in both the goods producing and services sectors. The estimated growth in the real sector was consistent with a real increase in loans and advance to the private sector at March 2004, relative to March 2003 (see ***Money and Credit****). With respect to aggregate demand, the improvement in economic activity reflected estimated real increases in both private consumption expenditure and investment spending. The estimated expansion in the March 2004 quarter, combined with growth of 1.9 per cent for the period April to December 2003, imply an expansion of between 2.0 and 2.2 per cent for fiscal year 2003/04. This estimated growth emanated from both the goods producing and services sectors.*

Aggregate Supply

The Jamaican economy is estimated to have grown appreciably in the March 2004 quarter, relative to the March 2003 quarter[7], continuing the trend observed in the previous six successive quarter (see **Figure 2.1**). Both the goods producing and services sector are estimated to have expanded in the review quarter.

Within the goods producing sector, all the sub sectors, with the exception of *Agriculture*, recorded an expansion during the review quarter. While higher out put levels

[7] Except where stated, all growth rates are expressed relative to the March 2003 quarter.

Figure 2.1
Trends in Quarterly

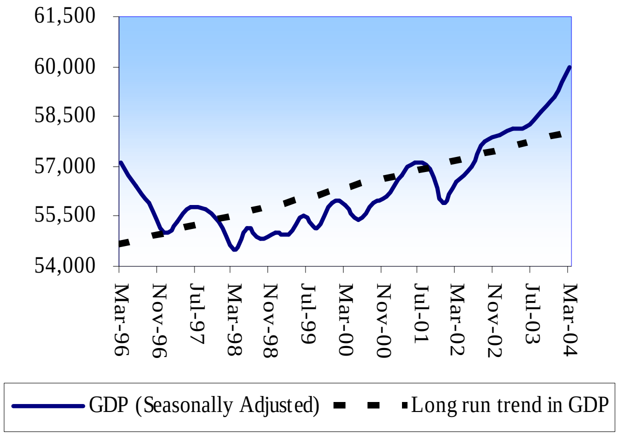
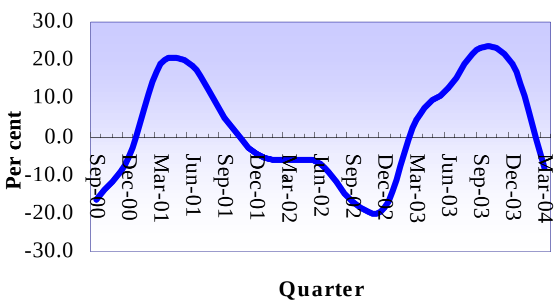


Figure 2.2
Trends in Domestic Crop Production
(12-Month change)



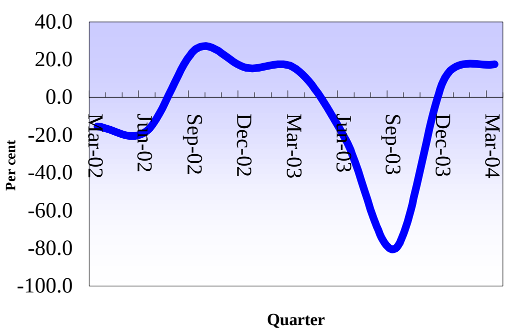


Figure 2.3
Trends in Sugar Cane Milled
(12-Month change)

were recorded for export agriculture, there were offsetting impulses from the estimated decline in output of domestic agricultural (see **Figure 2.2**). The estimate for domestic agriculture was influenced by declines in the production of vegetables, fruits, cereals, potatoes and other tubers, which countered the increased production of legumes, condiments and yams. The output of some agricultural products was adversely affected by a short drought in the major farming areas in the December 2003 quarter.

Higher output from the export agricultural sub-sector during the quarter was primarily driven by expansions of 17.6 per cent and 18.0 per cent in the production of sugar cane and bananas, respectively (see **Figure 2.3**). The growth in sugar cane production was driven by the recent initiatives of the Sugar Corporation of Jamaica (SCJ) to rejuvenate the sector. The SCJ has improved output in the current crop year through the planting of approximately 1800 hectares in the previous crop year. However, growth in export agriculture was dampened by estimated declines of 10.0 per cent and 22.0 per cent in coffee and citrus exports, respectively.

Value added in the *Mining* sector is estimated to have increased significantly by 10.7 per cent, compared with average quarterly growth of 4.9 per cent for the period March 2003 to December 2003. In this context, there were increases of 12.1 per cent and 2.3 per cent in the production of alumina and crude bauxite, respectively (see **Figures 2.4** and **2.5**). The growth in the sector primarily reflected utilization of an increase in the productive capacity at the JAMALCO plant. Additionally, the three alumina companies operated at

Figure 2.4
Trends in Alumina Production
(12-Month change)

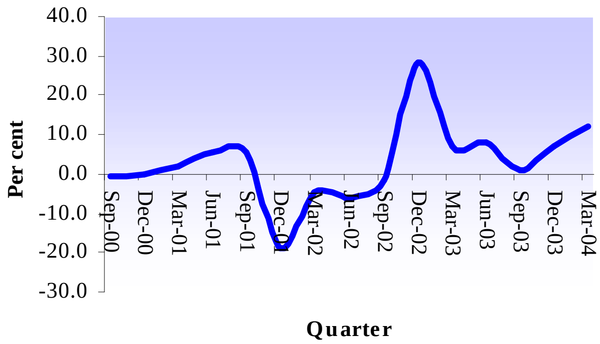


Figure 2.5
Trends in Crude Bauxite Production
(12-Month change)

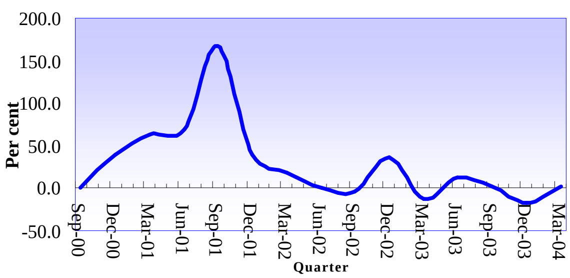
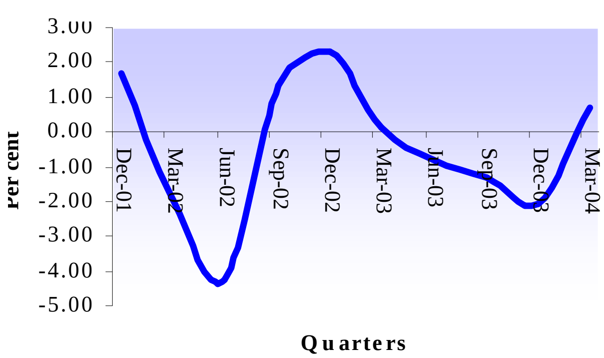


Figure 2.6
Manufacturing: Quarterly Growth Rate
(12-Month change)



maximum capacity during the quarter, relative to a capacity utilisation of approximately 94.1 per cent in the March 2003 quarter.

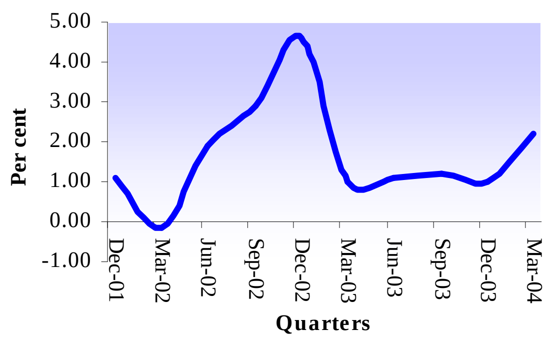
Economic activity in the *Manufacturing* sector is estimated to have grown appreciably in the March 2004 quarter, compared with declines recorded over the previous three quarters (see **Figure 2.6**). The expansion in the value added stemmed from the *food, beverages & tobacco* industries as well as, the '*other manufacturing'* group.

With regard to *food, beverages & tobacco*, estimated increases in the production of food, sugar, molasses & rum and non-alcoholic beverages offset the declines in the alcoholic beverages and tobacco & tobacco products industries. Within the food-processing sub-sector, the production of poultry meat accounted for most of the growth that occurred in the quarter. The sugar, molasses & rum sub-category reflected both the expansion in cane production as well as the impact of the upgrading of the sugar factories owned by the SCJ. Non-alcoholic beverages continued to be influenced by the introduction of new beverages and an expansion in the output of existing products. The decline in alcoholic beverages stemmed from lower consumer demand, which coincided with price increases in the previous year.

The growth in the '*other manufacturing'* sub-sector was principally due to petroleum refining. A 67.0 per cent improvement in the output of refined petrol products is estimated for the March 2004 quarter. This was against the background of the closure of the refinery in a part of the March 2003 quarter.

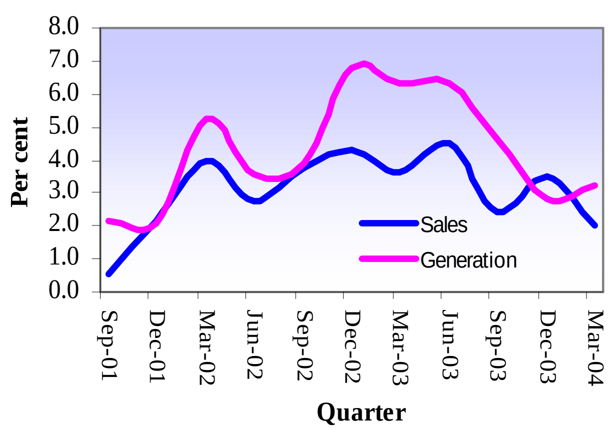
The *Construction & Installation* sector is estimated to have expanded relative to the corresponding quarter of the previous year. Primarily influencing the improvement was the ongoing construction of Highway 2000, the North Coast Highway projects, the modernization of the Kingston Wharfs, as well as development activities in the tourist industry. The estimated growth in the sector for the March 2004 quarter was partly inferred from a real expansion of approximately 36.5 per cent in loans to the construction sector for the 12-month period ending December 2003. Significantly, the residential segment of the market benefited from an estimated increase of 20.0 per cent in housing completions by the National Housing Trust (NHT), relative to significant declines in housing completions that was recorded in the three previous quarters (see **Figure 2.7**).

Figure 2.7
Construction: Quarterly Growth Rate



With respect to *Electricity & Water*, an expansion in real value added was inferred for the review quarter. There were increases of 3.2 per cent and 2.0 per cent in total electricity generation and sales, respectively, facilitated by the renovation and expansion exercises that were carried out by the main power company in both 2002 and 2003 (see **Figure 2.8**). In the context of drought conditions that occurred during the quarter, water production grew marginally by an estimated 1.0 per cent in the period, relative to an average growth of 4.0 per cent since the March 2003 quarter.

Figure 2.8
Electricity Generation & Sales
(12-Month change)



An expansion in value added for *Transport, Storage & Communication* was observed in all the sub-sectors. Growth in the transport sub-sector for the March 2004 quarter was inferred, in part, from a 4.3 per cent increase in visitor arrivals. Additionally, the number of ships calling at Jamaican ports increased by approximately 1.5 per cent. However, there was a decline of approximately

Continued Growth in Transport, Storage & Communication sector.

2.0 per cent in cargo movements through the Island's main seaports. With regard to the communication sub-sector, the total number of mobile and 'plain old telephones' (POTS) was estimated to have grown by approximately 12.0 per cent for the quarter. The continued growth in the sector has been fuelled by intense competition between the mobile services providers. Facilitating the overall performance of the sector was a real increase of 29.0 per cent in commercial bank loans to the industry, over the 12-month period ending March 2004 (see **Money and Credit**).

The *Distribution* sector is estimated to have registered marginal growth during the review quarter, relative to the corresponding period in 2003. The growth in distribution was partly inferred from an estimated increase of 1.4 per cent in merchandise imports (see **Figure 2.9**). In addition, the real stock of loans extended to the sector increased by 19.9 per cent for the twelve-month period ending March 2004.

Figure 2.9
Merchandise Imports
(12-Month change)

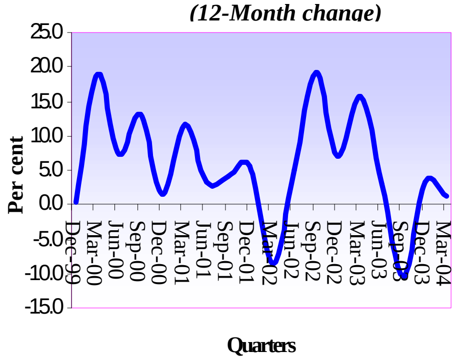
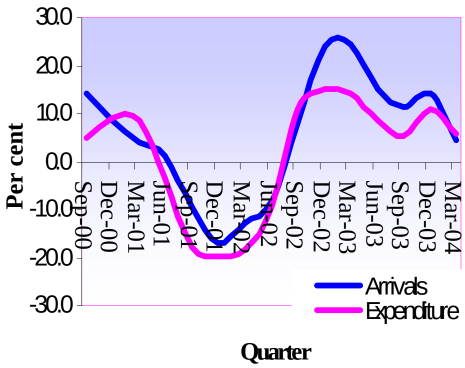


Figure 2.10
Visitor Arrivals & Expenditure



Miscellaneous Services continued to grow during the review period, registering an estimated increase of over 5.0 per cent, following quarterly average growth rates of 4.9 per cent over the previous four quarters. This performance was attributed mainly to the tourism industry (*hotels, restaurants and clubs*), which recorded estimated growth in excess of 6.0 per cent in the review period. The major factor contributing to this enhancement was an increase of 4.3 per cent in tourist arrivals, of which total stop over passengers increased by 7.5 per cent (**see Figure 2.10**). The growth in the sector was influenced by the increased arrivals from the European and Canadian markets, precipitated by exceptionally cold weather conditions, the depreciation of the US Dollar vis-à-vis the Euro and the Pound Sterling, and the

Figure 2.11
Trends in Consumption Tax Receipts
***(12-Month* change)**

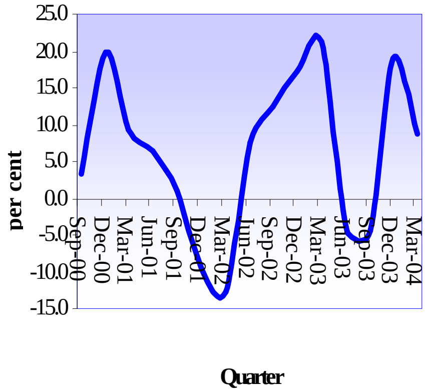


Figure 2.12
Trends in Programmes and Wages
(12-Month change)

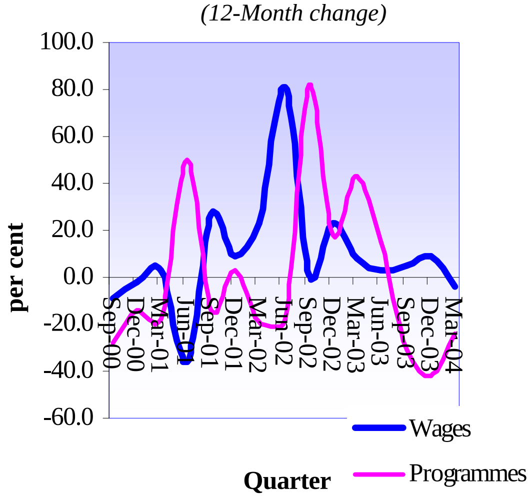
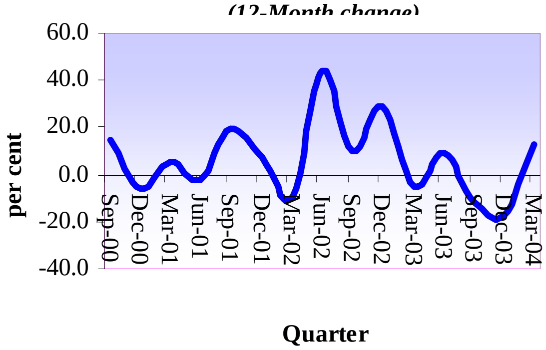


Figure 2.13
Trends in Capital Goods Imports
(12-Month change)



depreciation of the Jamaica Dollar vis-à-vis the currencies of Jamaica's main trading partners (**see Foreign Exchange Market**). In this context, visitor expenditure is estimated to have increased by 5.7 per cent in the quarter.

Aggregate Demand

The estimated growth for the review quarter reflected expansions in real private consumption spending and gross capital formation.

The growth in private consumption spending was inferred from a real increase of 8.8 per cent in consumption tax receipts (see **Figures 2.11**). However, there was an estimated decline in public consumption expenditure, reflected in real declines of 3.8 per cent and 24.1 per cent in wages and programmes, respectively (see **Figure 2.12**).

Indicators of gross capital formation during the quarter suggested an improvement in investment spending. This growth was inferred from an estimated increase of 12.7 per cent in estimated capital goods imports during the quarter (see **Figure 2.13**). The increase in investment activities during the quarter was partly attributed to the ongoing expansion at the Kingston Wharves as well as construction activities in the tourism industry.

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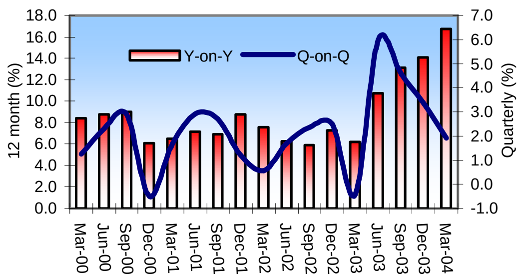
3. Inflation

Figure 3.1
Inflation Rate
(12 Month Pt-to-Pt & Quarterly Comparison)



Inflation for the March 2004 quarter was 1.9 per cent, continuing the downward trend evidenced since rates peaked in the June 2003 quarter. The main factor behind the price increases in the March quarter was higher international commodity prices. Accordingly, price increases were strongest in the Kingston Metropolitan Area (KMA) and weakest in the Rural Areas. For the fiscal year, inflation was 16.8 per cent, 10.6 percentage points above the rate recorded in FY2002/03. Core inflation for the quarter was estimated at 1.1 per cent relative to 2.0 per cent estimated for the December quarter and 1.3 per cent for the corresponding quarter of 2002/03. Core inflation for 2003/04 was 7.8 per cent relative to 4.4 per cent in the prior fiscal year.

Inflation during the quarter emanated mainly from exogenous factors related to unfavourable developments in the prices of some international commodities. Stable domestic macroeconomic conditions, however, contributed to a moderation in underlying inflation during the quarter. Headline inflation for the March quarter was 1.9 per cent, which was higher than the corresponding quarters of the past five years. Inflation in this quarter was largely due to the higher cost of international food commodities, adverse crude oil price movements and increases in the cost of utilities. The Consumer Price Index (CPI) increased by 0.8 per cent, 0.6 per cent and 0.5 per cent in January, February and March, respectively.

The main causes of inflation this quarter were external factors…

Inflation for the fiscal year was 16.8 per cent, relative to the 6.2 per cent recorded in the prior fiscal year. The major reasons for the higher inflation in this fiscal year related to the revenue package of Central Government, sharp exchange

Figure 3.2
Core Inflation per Quarter

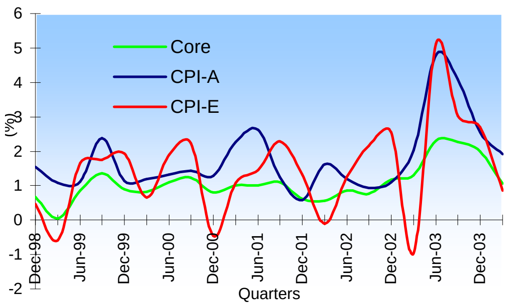


Figure 3.3
Lagged Base Money % Change & Core Inflation

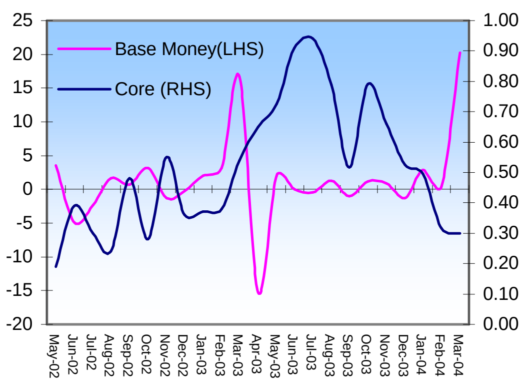
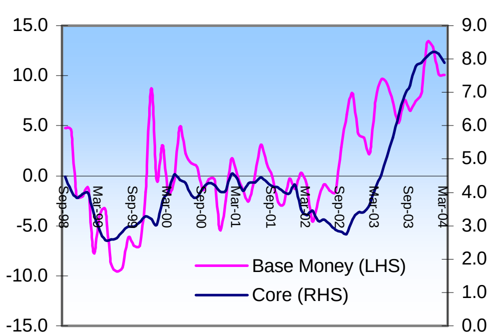


Figure 3.4
12 Month % Change Average Base Money and Core Inflation



rate depreciation in the June quarter and increases in the minimum wage and bus fares.

Monetary Policy and Inflation

Core or underlying inflation, as measured by the trimmed mean, moderated during the quarter. In January, underlying inflation was estimated at 0.5 per cent and moderated to 0.3 per cent in both February and March. The slowing of underlying inflation during the quarter, reflected the stable monetary conditions in the two preceding quarters, which was translated into marked stability in the exchange rate in the December quarter, which continued into the March quarter (see **Foreign Exchange Market**). The stability in the exchange rate is also reflected in the significant decline in the rate of increase for durable goods (**Figure 3.9**).

For the quarter, core inflation, as measured by the trimmed mean index, was 1.1 per cent, representing a decrease relative to the 2.0 per cent recorded in the December quarter. This level of core inflation is consistent with the medium-term objective of underlying inflation of approximately 4.0 per cent per year. However, for the fiscal year, the trimmed mean index increased by 7.8 per cent, relative to 4.1 per cent in the prior fiscal year. These increases reflected stronger inflationary pressures over the first three quarters of the fiscal year.

Other measures of underlying inflation, such as the CPI without Energy (CPI-E)[8] and the CPI without Agriculture (CPI-A), also reflected slower rates of increase over the quarter. The CPI-E index increased by 0.8 per cent in the March quarter relative to 2.7 per cent in the December quarter.

[8] CPI-E is calculated by removing the energy sub-groups from the CPI.

Figure 3.5
Food & Non Food Inflation (Annual)

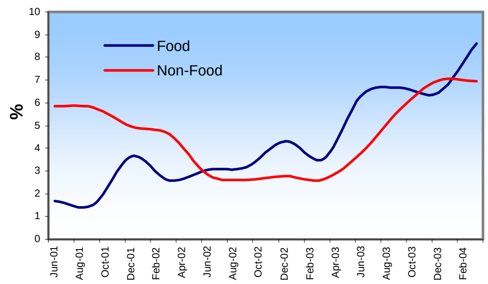
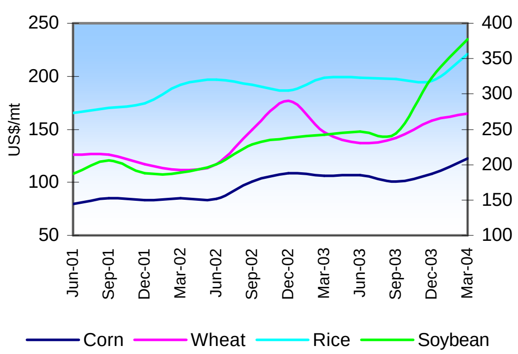


Figure 3.6
Grains Price Movements



For the CPI without Agriculture (CPI-A), the index increased by 1.9 per cent relative to 2.5 per cent in the previous quarter (see **Figure 3.2**).

Non-Core Factors

The major factors influencing the non-core component of inflation during the period were supply-side issues related to international commodities and some domestic administered prices. Price movements in the international arena, particularly in grains prices, proved to be the most significant impulse to inflation. Increasing grains prices have been influenced by adverse weather conditions, increasing demand, strategic decisions regarding export volumes and falling yields. These factors contributed to higher weighted inflation from food in the review period, evidenced by an increase of 8.6 per cent in a food-based index relative to 6.9 per cent for non-food commodities within the basket (see **Figure 3.5**). The price of oil on the international commodity markets rose in response to concerns regarding supply and increased demand, as the global recovery gathered momentum. In terms of domestic factors, administered prices at the major utility companies were increased in response to rising costs, both domestically and globally.

Major Contributors to Inflation

The convergence of a number of factors precipitated a surge in grains and legumes prices to unprecedented levels. For soybeans, the world's top three producers were affected by low yields and adverse weather conditions while, another major producer shifted from exporting to stockpiling. The movement in wheat and corn prices was driven mainly by increased global demand. Additional demand for corn arose from ethanol producers and domestic feed users while, the rise in the price of soybeans reinforced the rise in corn prices

Figure 3.7
Average Crude price (US$) per barrel

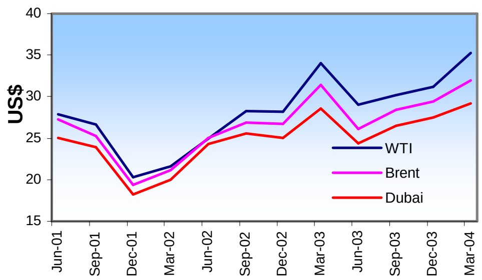


Figure 3.8
Edible Oils Prices (US$) per MT

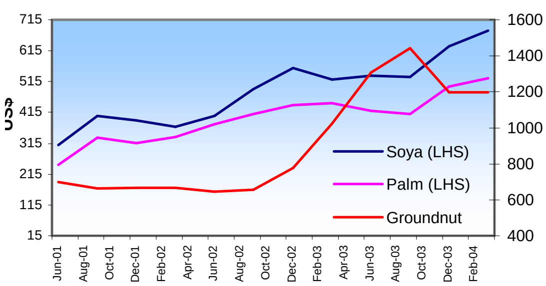
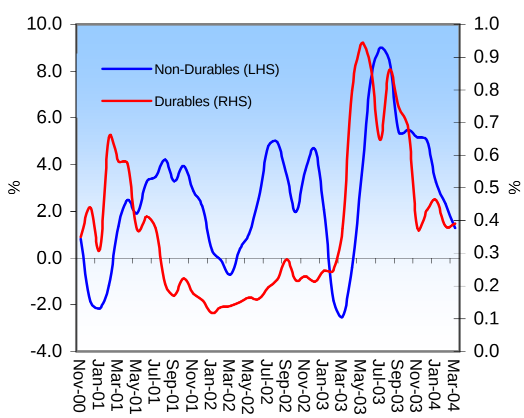


Figure 3.9
3 Mth% changes in Durables and Non-Durables Indices



through their complementarity. The price of rice was affected by the concurrence of higher demand for the Thai product, with the Thai government's decision to temporarily suspend sales of the commodity to the market. The essential nature of these commodities resulted in a pervasive impact on the *Food & Drink* group of the CPI and was the most important influential on the inflation outturn for the quarter.

Oil Prices

The rate of oil price increases in the March quarter exceeded that of the December quarter. The price of the West Texas Intermediate (WTI) crude oil rose by 13.0 per cent during the March quarter relative to a 3.4 per cent increase in the preceding quarter. Similar movements were observed in the price of representative crude oils such as the North Sea Brent and Dubai Light (see **Figure 3.7**). The WTI crude oil price rose to an average US$35.23 per barrel in the March quarter, from US$31.18 per barrel in the December quarter. The monthly averages for January, February and March were US$34.24 per barrel, US$34.73 per barrel and US$36.73 per barrel, respectively. Some of the factors underpinning the movements in oil prices include the harsh and prolonged winter in the USA, security concerns in the Middle East and Europe, increasing demand from Asia and concerns about inventory levels in the USA. Inventory levels in the USA fell below the Lower Operational Inventory level of 270 million barrels set in 1998 and were the lowest since 1975.

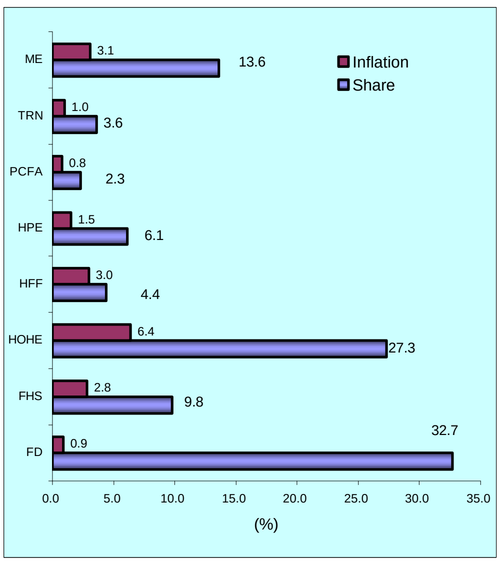
Exchange Rate

Inflation during the review quarter was tempered by the relative stability in the exchange rate since the December quarter. Over the current quarter, the exchange rate depreciated by 0.6 per cent relative to 1.4 per cent in the December quarter (see **Foreign Exchange Market**). The impact of the mild depreciation was reflected in the indices of durable and non-durable prices. The prices of durable goods have increased by much smaller amounts than their non-durable counterparts (see **Figure 3.9**).

Component Contribution to Inflation

Given the aforementioned factors, price increases were strongest in the *Food & Drink*, *Housing & Other Housing Expenses*, *Miscellaneous Expenses* and *Fuels & Other Household Supplies* sub-indices. These groups increased by 0.9 per cent, 6.4 per cent, 3.1 per cent and 2.8 per cent, respectively, and accounted for 32.7 per cent, 27.6 per cent, 13.6 per cent and 9.8 per cent of the inflation over the quarter. Within the *Food & Drink* group, there were expansions of 2.5 per cent and 2.4 per cent in the *Meals Away from Home* and *Meat, Poultry & Fish* sub-groups, respectively. This stemmed primarily from the movements in grain prices on the international market, which affected important elements of animal feeds, thereby increasing the cost of meat. Additionally, recent evidence of mad cow disease in the USA led to a cessation of beef imports adding upward impetus to prices (see **Figure 3.10** and **Table 2, Appendix C**).

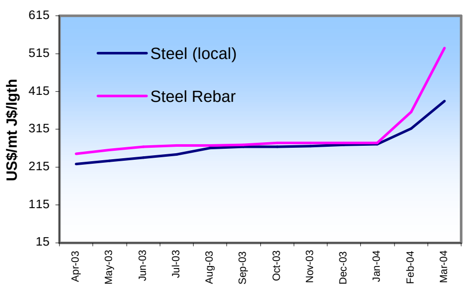
Figure 3.10
Inflation by Group



FD=Food & Drink, FHS=Fuels & Other Household Supplies, HOHE= Housing & Other Housing Expenses, HFF=Household Furnishings & Furniture, HPE=Healthcare & Personal Expenses, PCFA=Personal Clothing, Footwear & Accessories, TRN=Transportation, ME= Miscellaneous Expenses

Increases in utility rates were an important factor in the 6.4 per cent expansion of *the Housing & Other Housing Expenses* group. These increases emanated from both domestic administered adjustments as well as, external factors. In this regard, water rates increased by 20.4 per cent while, the major provider of fixed-line telephones increased rental rates by 25.0 per cent in March. This was in a context where the Office of Utilities Regulation (OUR), the utility supervisory body, lifted some restrictions on the fee structure of the phone company thus enabling them to charge the economic cost of their landline service. Externally, the rise in the price of crude oil by an average 13.0 per cent in the March quarter strongly affected fuel rates charged by the electric utility company, which rose by 6.3 per cent over the quarter. Another factor that affected this group was the improvement in global growth, which has led to an increase in demand and prices for building and construction materials. In particular, the industrial juggernaut in Asia, and more so in China, affected the demand for steel such that prices were rising on a weekly basis. Over the March quarter, the price of steel rebar rose by almost 90.0 per cent on the international market.

Figure 3.11
Local & International Steel Prices



The *Miscellaneous Expenses* sub-index expanded by 3.1 per cent over the quarter and accounted for 13.6 per cent of inflation. This increase emanated principally from higher admissions fees to cinemas and the increased cost of newsprint.

Increases in energy-related commodities such as cooking gas and kerosene affected the movements in the *Fuels & Other Household Supplies* group.

Regional Distribution of Inflation

During the review quarter, inflation was strongest in the Kingston Metropolitan Area (KMA) and Other Towns. Within these regions, the CPI increased by 2.3 per cent and 2.2 per cent, respectively. This compared to a 1.2 per cent increase in the Rural Areas (see **Table 2B, Appendix C**). The regional distribution of inflation in the quarter primarily reflected the influence of the *Food & Drink*, *Miscellaneous Expenses* and *Transportation* sub-indices. Within the *Food & Drink* group there was a slower rate of increase in the *Meat, Poultry & Fish* sub-group in the Rural Areas as a result of the non-occurrence of significant increases in chicken-back prices. The *Miscellaneous Expenses* and *Transportation* sub-indices also reflected significantly slower price movements in the Rural Areas. The *Miscellaneous Expenses* index of the

Rural Areas was affected by the impact of the lower weights applied to cinema fares.

Table 3.1

Decomposition of Inflation Outturn FY 2003/04	Inflation (%)	Cont'btion (%)
Non Core Factors	**8.9**	**53.1**
Food & Drink	**5.2**	**30.9**
Veg'bles &Fruit	1.1	6.6
Meals Away	1.0	6.1
Baked Products	1.3	7.9
Meat, Poultry	1.7	10.3
Transportation	**1.5**	**8.9**
Misc. Expenses	**1.4**	**8.1**
Other	**0.9**	**5.3**
Core	**7.8**	**46.9**
TOTAL	**16.8**	**100.0**

Deviations from the FY Forecast

Inflation in the fiscal year greatly exceeded the revised target of 8.0 - 9.0 per cent. This was largely due to a combination of Central Government's revenue measures, sharp exchange rate depreciation, above trend increases in international commodity prices and adjustments in administered prices.

Fiscal Year 2003/04

For the fiscal year, headline inflation was 16.8 per cent, of which core inflation accounted for 46.9 per cent (see **Table 3.1**). Consistent with the budgetary measures and adverse developments with regard to international commodities, the primary impulses to inflation emanated from the *Food & Drink*, *Transportation* and *Miscellaneous Expenses* sub-indices. Within the *Food & Drink* sub-index, the *Meat, Poultry & Fish* and *Baked Products, Cereals & Breakfast Drinks* sub-groups were the main drivers reflecting the impact of increased prices of key inputs. These inputs were affected by movements in prices of grain and legumes on international market, which influenced price increases in animal feeds and flour. The group also displayed the effects of the removal of exemption and zero-rated GCT status from a number of items. The *Transportation* group was affected by the movements in crude oil prices and by the increase in the cost of public transportation in June. The impact of Central Government's revenue enhancement measures was primarily reflected in the *Miscellaneous Expenses* group as a special tax aimed at raising funds for the National Health Fund was levied on cigarettes.

4. Economic Outlook and Monetary Policy Perspectives

Positive economic performance is expected for fiscal year 2004/05. The economic outlook is for a continuation of growth, lower inflation and stable financial markets. Growth in the economy is projected against the background of stronger world growth, which should have a positive impact on the demand for exports such as tourism and mining. Economic expansion is expected to be aided by lower interest rates. Inflation is expected to return to single digit in FY2004/05, as the shocks that characterized FY2003/04 are not expected to recur.

For the June 2004 quarter, growth is expected in both the goods and services sectors of the economy. Inflation is expected to be higher than the March quarter and will be led primarily by seasonal increases in agricultural prices and recent increases in the price of crude oil. The Central Bank will maintain its focus on lowering interest rates as core inflation subsides. The commitment to a lowering of the fiscal deficit in FY2004/05 is consistent with the achievement of this objective.

Faster world growth projected for 2004 relative to 2003

The recent economic performance sets the foundation for an even stronger domestic economy in FY2004/05. This optimism is underpinned by positive developments within the external economy. The world economy in 2004 is projected, by the International Monetary Fund, to grow by 4.6 per cent[9] relative to the preliminary growth estimate of 3.2 per cent in 2003. This performance is expected to be led by the US economy which is projected to grow by 4.6 per cent. The anticipation of buoyancy is also shared by the Institute for International Economics which forecast world growth at 4.75 per cent[10] with the US and Asian

[9] IMF World Economic Outlook, April 2004

[10] Presentation by Michael Mussa at "Global Economic Forcasts" Institute for International Economics, Washington, DC. April 1, 2004

economies growing by 4.5 per cent and 7.5 per cent, respectively. The anticipated acceleration in world growth is expected to boost demand for Jamaica's exports, particularly in mining and tourism.

Further, low interest rates in the United States as well as improving market sentiment towards emerging markets should continue to positively affect Jamaica's foreign bonds and facilitate government's ability to raise funds in the global financial markets. This increases government's financing options and will have a positive effect on domestic interest rates.

Positive economic conditions should augur well for investors' confidence

Recent trends in interest rates, relative stability in the foreign exchange market, and an increasing level of international reserves have combined to boost confidence. This improving economic environment is also supported by Government's attainment of its objective for fiscal year 2003/04 and a commitment to continued restraint in the new fiscal year. Fiscal and general macroeconomic policy prospects are also bolstered by ongoing efforts at forging consensus and commitment with the labour unions and the private sector. These developments should augur well for a further strengthening of investor confidence and the expansion of the real economy.

Growth should continue in FY2004/05

Against this background, it is expected that the Jamaican economy should grow within the range of 2.0 per cent to 2.5 percent in FY2004/05. This expansion is expected across all sectors but should be more dominant in areas such as construction, manufacturing, mining, basic services and the tourism sector.

Inflation for the fiscal year 2004/05 is projected at approximately 9.0 per cent. This forecast is lower than the 16.8 per cent outturn for FY2003/04 as it does not anticipate a recurrence of the shocks that were responsible for the sharp increases in that year.

In the absence of shocks inflation should return to single digit in FY2004/05

The forecast assumes relatively stable foreign exchange market conditions and the attainment of a fiscal deficit of 3.0 to 4.0 per cent of GDP. The achievement of the fiscal target is important for investor confidence as deviation from it could precipitate disorder in the foreign exchange market and militate against the attainment of the inflation target.

The main threat to the attainment of the inflation target is the uncertain trajectory for oil prices in the fiscal year. The short-term forecast assumes that oil prices will remain broadly in line with the levels observed in the last quarter of FY2003/04. However, prices are expected to moderate towards the end of the fiscal year.

Short Term Outlook-June 2004 Quarter

Real Sector

Positive performance in the June 2004 quarter is anticipated in both the goods and services sectors of the economy. The main growth sectors are expected to be *Mining*, *Construction*, *Miscellaneous* and *Basic Services*.

Growth in mining driven by world demand for aluminium

The growth trend observed in the mining sector over the past six quarters should continue in the June 2004 quarter. This optimism is driven by an increasing global demand for aluminium as well as efficiency gains within the industry. The expectation of growth in alumina processing is also aided by an increase in capacity and capacity utilization relative to the corresponding quarter of last year. Projections for the production of bauxite and alumina for the June 2004 quarter are for respective increases of 5.6 per cent and 6.4 per cent relative to the corresponding quarter of 2003.

Construction activities for the June 2004 quarter are expected to increase relative to the comparable period of the previous year. The sector's performance will depend primarily on the continuation of major road projects and construction activities in the tourism and mining industries.

The manufacturing sector is expected to reflect strong growth in petroleum refining, production of sugar and beverages. Petroleum refining should reflect significant growth in the June 2004 quarter in contrast to the decline in the June 2003 quarter when the refinery plant was closed for maintenance. The prospect for greater sugar production occurs in the context of significant cane harvesting in the March 2004 quarter.

The provision of basic services in the economy should expand in the June 2004 quarter. The *Electricity* and *Communications* sub-sectors should be buoyed by increasing demand for these services brought about by the current expansionary trend in the economy. Transportation services should benefit from a continued increase in stopover visitors in the travel sector and increased cruise ship calls. The recent acquisition of more efficient gantry cranes and other efforts at improving our transshipment facilities bode well for continued expansion of the sub-sector. The output of the transportation sector should also benefit from the national airline's resumption of flights to Canada.

Consistent with recent trends, the tourism sector is expected to expand in June 2004 quarter relative to the corresponding period of 2003. Bank of Jamaica's projection suggests that growth in tourist arrivals for the quarter could be in excess of 10.0 per cent. The increase in airline seats on the Canadian route should serve to boost arrivals in both the foreign nationals and returning residents segments from that market. The industry will also benefit from increases in the number of rooms with the opening of a hotel in the quarter. Significant growth is also expected in cruise ship arrivals for the period.

Inflation

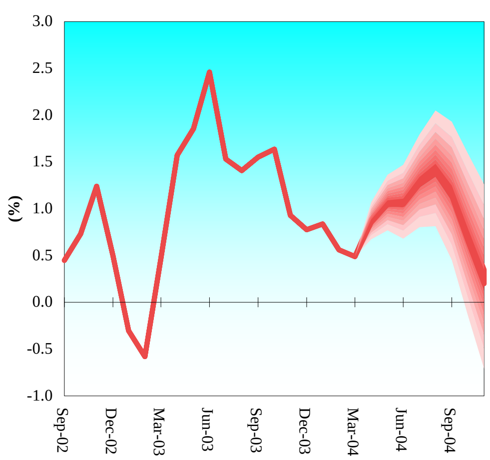
A seasonal increase in headline inflation is anticipated in the June 2004 quarter relative to the previous quarter. The higher inflation will be driven primarily by higher agricultural commodity prices and increases in global commodity prices, in particular crude oil. Seasonally lower supplies as well as the ongoing drought being experienced in sections of the Island should affect domestic agricultural commodity prices adversely.

Recent developments in the global market for crude oil have fueled an atmosphere of uncertainty. There are lingering concerns regarding inventory levels in the USA at the onset of the travel season, which will continue to impact the market. Oil prices are projected to remain at relatively high levels, averaging approximately US$36.00 per barrel during the June quarter. This compares to an average price of US$35.25 in the previous quarter. While prices are not expected to increase sharply during the next three months, the prevailing uncertainty could trigger a faster transmission to local prices.

Price increases for grains have significantly influenced inflation in recent months, a trend which may continue in the June quarter. The prices of rice, corn and wheat rose during the March 2004 quarter (**see Inflation**). These commodities which are base products for a number of consumer items are projected to, at best, remain at relatively high prices due to strong global demand. Against the background of a relatively stable foreign exchange market, price impulses arising from exchange rate pass through are not expected to be significant to the outcome for the June 2004 quarter. This expectation is also reinforced by the appreciating tendencies observed in the market (**see Foreign Exchange Market**).

Given these factors, inflation for the June 2004 quarter is expected to be reflected primarily in the *Food & Drink*, *Transportation, Fuels & Other Household Supplies* and the

Figure 4.5
Inflation Forecast



The fan chart depicts the probability distribution for the inflation forecast and reflects the Bank's assessment of the risks. The darkest band represents the central (single most likely) projection and covers 10% of the probability. The bands widen as the time horizon is extended, indicating increasing uncertainty about the inflation outcome.

Housing & Other Housing Expenses sub-categories. The *Food & Drink* sub-category will be affected by the expected increase in agricultural prices as well as grain prices. The other sub-categories will be influenced primarily by the anticipated adjustment in crude oil related items.

Headline inflation for the June 2004 quarter is expected to be in the range of 2.0 per cent to 3.0 per cent. This projection while seasonally higher than the March quarter, is significantly less than the 6.0 per cent realised in the corresponding quarter of the previous year. This outlook assumes continued relative stability in the exchange rate and a continuation of the downward trend in core inflation. The uncertainty in the crude oil market as well as the trend in grain prices as we approach the summer months, continues to pose a threat to the inflation projection (see **Figure 4.5**).

Monetary Policy

There has been a steady but measured reduction in interest rates as positive developments in the economy have allowed for the relaxation of monetary policy. At the same time, the trend has revealed a consistent reduction in core inflation since the June 2003 quarter. Additionally, the growth momentum continues and there is evidence to indicate that this will accelerate in the medium-term. Against this background the objectives of monetary policy for the fiscal year 2004/05 will be continued lowering of interest rates and core inflation while maintaining relatively stable conditions in the financial markets.

The foreign exchange market is expected to remain relatively stable as foreign flows are anticipated to continue through remittances and increased demand for exported goods and services. The increasing level of net international reserves supports the stability in the foreign exchange market. The recent buoyancy in the stock market has served to shift some Jamaican dollar liquidity away from the foreign exchange market and has also helped to keep the exchange rate stable. The attainment of the fiscal target for FY2003/04 and the commitment to further lowering of the deficit should also assist in strengthening investors' confidence in the economy. The Government has targeted a further lowering of the deficit to 4.0 per cent of GDP for fiscal year 2004/05.

Appendices

A. Fiscal Developments: January – March 2004

Provisional data suggest that for the March quarter, Government operations resulted in a surplus of $5 611.35 million or 1.2 per cent of GDP which was $2 079.3 million higher than targeted. This performance was influenced primarily by strong revenue flows during March, which offset higher than targeted expenditure. The primary surplus of 5.4 per cent of GDP was above the targeted surplus 4.6 per cent while the current surplus was 0.3 per cent relative to a targeted surplus of 0.7 per cent.

Consequent on the significant performance for the March 2004 quarter, the fiscal deficit, which at December 2003 was $35 345.7 million or 7.3 per cent of GDP, was sharply reduced to $29 734.3 million or 6.1 per cent of GDP[11] for fiscal year 2003/04, relative to the original target of $24 333.2 million or 5.0 per cent. The deviation from budget was the result of higher than programmed expenditure as total revenue flows were above budget. Consequently, the primary surplus was 12.0 per cent of GDP compared to the targeted surplus of 11.3 per cent, reflecting strong revenue flows during the March quarter. However, the current deficit was 6.4 per cent, well above the targeted deficit of 3.7 per cent, reflecting lower than budgeted recurrent revenues and high recurrent expenditure relative to target (See Table).

Total revenues exceeded budget by $6 133.7 million during the March 2004 quarter due to strong flows from tax and capital revenues in particular. Capital revenues benefited from the sale of receivables in March, as well as the receipt of loan repayments while, tax revenues were enhanced from the payment of arrears. Notwithstanding this, tax revenues for the fiscal year were 1.9 per cent below budget largely driven by a shortfall of 20.3 per cent in GCT flows. Tax revenues were, however, 27.4 per cent above the 2002/03 levels. Flows from PAYE were 9.6 per cent above budget and 23.2 per cent above that of the previous fiscal year.

Government expenditure exceeded budget by $4 054.4 million or 10.1 per cent in the March quarter and $8 211.6 million or 4.8 per cent for the fiscal year. The deviation in

[11] This outturn does not treat divestment proceeds totalling $1 538.2 million received during the fiscal year, above the line. Treated as revenues, these flows would yield a deficit 5.8 per cent of GDP as reported by the Government for fiscal year 2003/04.

expenditure during the quarter was primarily influenced by higher than programmed payments for domestic interest and wages & salaries. While for the full year these categories were above budget by 11.6 per cent and 18.2 per cent, respectively, capital expenditure and programmes were below budget by 42.3 per cent and 12.8 per cent, respectively. Domestic interest payments were influenced during the fiscal year by higher than budgeted interest rates as well as a larger borrowing requirement during the first nine months of the fiscal year. Consequently, interest payments of 18.1 per cent of GDP (See **Table 1**) were above the targeted 16.3 per cent. Higher expenditure on wages and salaries resulted from the impact of new wage rates and retroactive salary payments.

The deficit generated by Central Government during the fiscal year was financed from both domestic and foreign sources with a greater emphasis on the former in the first nine months of the fiscal year. During the March quarter, Government's resources were augmented by the receipt of €200 million (US$253.0 million) from the international capital market as well as, a US$50.0 million bond issued to a regional financial institution. As a consequence, the financing mix, though skewed towards domestic financing, was largely in line with expectations at the end of the fiscal year.

The budget announced in Parliament in mid-April envisages further reduction in the deficit to within 3.0 per cent to 4.0 per cent of GDP for fiscal year 2004/05. This adjustment is expected to come from strong revenue growth relative to the previous fiscal year as well as, a deceleration in the growth of expenditure. The deficit anticipated by the budget, will be financed from domestic and foreign sources, with a greater reliance on domestic resources.

Table 1

Fiscal Performance
Comparative Analysis
J$ Million

	Provisional 2003/04 Q4	Budget Q4	Change	Provisional FY 2003/04	Budget FY 2002/03	Change
Revenue and Grants	**49624.80**	**43491.10**	**6133.70**	**149873.24**	**147063.00**	**2810.24**
Tax Revenue	40694.70	38226.20	2468.50	131087.60	133692.80	-2605.20
Capital Revenue	5776.60	2203.90	3572.70	7063.94	2877.10	4186.84
Other (incl. Non-tax)	3153.50	3061.00	92.50	11721.70	10493.10	1228.60
Expenditure	**44013.45**	**39959.00**	**4054.45**	**179607.55**	**171396.20**	**8211.35**
Recurrent Expenditure*	42488.21	38008.40	4479.81	173917.41	162350.10	11567.31
Capital Expenditure	1358.54	1822.40	-463.86	4848.14	8398.80	-3550.66
IMF # 1 Account	166.70	128.20	38.50	842.00	647.30	194.70
Overall Balance	**5611.35**	**3532.10**	**2079.25**	**-29734.31**	**-24333.20**	-5401.11
Memo						
Current Balance	**1359.99**	**3278.80**	**-1918.81**	**-31108.11**	**-18164.20**	**-12943.91**
Primary Balance	**26485.79**	**22317.10**	**4168.69**	**58450.37**	**54878.40**	**3571.97**

Performance Indicators
(percentages of GDP)

	BR	CB	PB	IP	FSR
Q1 - Q3 FY 2003/04	7.26	-6.67	6.56	13.82	-1.35
Q1 - Q3 FY 2003/04 Target	5.72	-4.40	6.69	12.41	-1.27
Q4 FY 2003/04	-1.15	0.28	5.44	4.29	-0.89
Q4 FY 2003/04 Target	-0.73	0.67	4.58	3.86	-0.92
FY 2003/04	6.11	-6.39	12.00	18.11	-1.20
FY 2003/04 Target	5.00	-3.73	11.27	16.27	-1.17

Key
BR = Borrowing Requirement
CB= Current Balance = Current Revenue-Current Expenditure as a percent of GDP
PB= Primary Balance = Total Revenues-Total Expenditures less Interest Payments (IP) as a percent of GDP
IP= Interest Payments as a percent of GDP
FSR=Fiscal Stability Ratio = (Overall Balance/ Total Revenue) - 1

International Benchmarks

BR greater than **3% of GDP** often indicates serious fiscal imbalance
FSR closer to zero indicates more stable government finances
Negative CB ratio of less than 1% indicates dissaving or a need for fiscal adjustment as the public sector is borrowing for consumption
PB ratio above zero indicates major fiscal adjustment to cover interest on past obligations

** Recurrent Expenditure includes programmes, wages and salaries and interest payments.*

Source: Ministry of Finance and Planning

B. MONETARY POLICY DEVELOPMENTS

27/04/2000 30-day Reverse Repurchase Rate was reduced from 17.30 per cent to 17.00 per cent.

01/06/2000 Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-three per cent (33%) to thirty-two per cent (32%).

Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from fifteen per cent (15%) to fourteen per cent (14%).

The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty-two per cent (5% and 32%) for Building Societies.

The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and fourteen per cent (1% and 14%) in respect of local and foreign currency deposits.

28/07/2000 30-day Reverse Repurchase Rate was reduced from 17.00 per cent to 16.75 per cent.

11/08/2000 30-day Reverse Repurchase Rate was reduced from 16.75 per cent to 16.45 per cent.

01/09/2000 Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-two per cent (32%) to thirty-one per cent (31%).

Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from fourteen per cent (14%) to thirteen per cent (13%).

The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty-one per cent (5% and 31%) for Building Societies.

The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and thirteen per cent (1% and 13%) in respect of local and foreign currency deposits.

18/09/00	Bank of Jamaica introduces 270-day and 365-day reverse repurchase instruments at 17.6 and 18.0 per cent respectively.
04/10/00	Interest rates on the 270-day and 365-day instruments were increased to 20.0 and 22.0 per cent respectively.
23/10/00	Interest rates on the 270-day and 365-day instruments were reduced to 17.6 and 18.0 per cent respectively.
24/11/00	Interest rates on the 270-day and 365-day instruments were increased to 20.0 and 22.0 per cent respectively.
28/12/00	Interest rate on the 365-day instrument was reduced to 21 per cent.
14/02/01	Interest rates on the 365-day and 270-day instruments were reduced to 20.00 per cent and 19.25 per cent respectively.
20/02/01	Interest rates on the 365-day and 270-day instruments were reduced to 19.50 per cent, and 18.75 per cent respectively.
01/03/01	Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty-one per cent (31%) to thirty per cent (30%). Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirteen per cent (13%) to twelve per cent (12%). The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and thirty per cent (5% and 30%) for Building Societies. The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and twelve per cent (1% and 12%) in respect of local and foreign currency deposits.
08/03/01	Interest rates on the 365-day, 270-day, instruments were reduced to 19.00 per cent, 18.25 per cent per cent respectively.
12/03/01	Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 18.50 per cent, 17.75 per cent, 16.70 percent, 16.40 per cent, 16.25 per cent, 16.15 per cent and 16.00 per cent respectively.

22/03/01 Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 17.75 per cent, 17.00 per cent, 16.15 per cent, 15.80 per cent, 15.70 per cent, 15.60 per cent and 15.50 per cent respectively.

11/04/01 Interest rates on the 365-day and 270-day instruments were reduced to 17.50 per cent and 16.75 per cent respectively.

21/05/01 Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 16.50 per cent, 15.70 per cent, 15.30 per cent, 15.05 per cent, 14.95 per cent, 14.85 per cent and 14.75 per cent respectively.

01/06/01 Liquid assets ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from thirty per cent (30%) to twenty nine per cent (29%).

Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from twelve per cent (12%) to eleven per cent (11%).

The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty nine per cent (5% and 29%) for Building Societies.

The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and eleven per cent (1% and 11%) in respect of local and foreign currency deposits.

08/06/01 Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.90 per cent, 15.35 per cent, 15.00 percent, 14.80 per cent, 14.70 per cent, 14.60 per cent and 14.50 per cent respectively.

25/06/01 Interest rates on the 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 14.75 percent, 14.55 per cent, 14.45 per cent, 14.35 per cent and 14.25 per cent respectively.

29/06/01 The Bank of Jamaica introduced Certificates of Deposits to the range of instruments used in open market operations. All the terms and conditions applicable to Reverse Repurchase transactions apply to Certificates of Deposits, with the exception that the latter are covered by the central bank's assets as against Government securities. Central Bank deposits which are maintained in statement form (i.e. no physical certificate is issued) will continue to be used for placements of seven (7) days or less.

01/09/01 Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from twenty nine per cent (29%) to twenty eight per cent (28%).

Cash reserve ratio of commercial banks' and FIA institutions in respect of local and foreign currency liabilities reduced from eleven per cent (11%) to ten per cent (10%).

The maximum liquid asset ratio for Building societies was reduced by one percentage point resulting in the dual liquid asset ratios of five per cent and twenty eight per cent (5% and 28%) for Building Societies.

The maximum cash reserve ratio for Building Societies was reduced by one percentage point resulting in dual cash reserve ratios of one per cent and ten per cent (1% and 10%) in respect of local and foreign currency deposits.

30/10/01 Interest rates on the 365-day, 270-day, 180-day, 90-day and 60-day instruments were increased to 19.90 per cent, 19.45 per cent, 15.50 per cent, and 15.00 per cent, 14.75 per cent and 14.55 per cent, respectively

28/12/01 Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day and 60-day instruments were reduced to 18.90 per cent, 18.40 per cent, 15.00 per cent, and 14.55 per cent, 14.45 per cent and 14.35 per cent, respectively.

09/01/02 Interest rates on the 365-day and 270-day instruments were reduced to 17.90 per cent and 17.00per cent, respectively.

06/02/02 Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 16.70 per cent, 15.90 per cent, 14.70 per cent, 14.30 per cent, 14.20 per cent, 14.10 per cent and 14.00 per cent, respectively.

14/02/02 Interest rates on the 365-day, 270-day, 180-day, 120-day, 90-day, 60-day and 30-day instruments were reduced to 15.80 per cent, 15.00 per cent, 14.40 per cent, 14.05 per cent, 13.95 per cent, 13.85 per cent and 13.95 per cent, respectively.

01/03/02	Liquid assets ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities were reduced from twenty eight per cent (28%) to twenty seven per cent (27%). Cash reserve ratio of commercial banks and FIA institutions in respect of local and foreign currency liabilities reduced from ten per cent (10%) to nine per cent (9%).
11/03/02	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced from 13.75 per cent, 13.85 per cent, 13.95 per cent, 14.05 per cent, 14.40 per cent, 15.00 per cent and 15.80 per cent to 13.25 per cent, 13.35 per cent, 13.45 per cent, 13.55 per cent, 13.80 per cent, 14.20 per cent, and 15.00 per cent, respectively.
11/07/02	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day, and 365-day open market instruments were reduced from 13.25 per cent, 13.35 per cent, 13.45 per cent, 13.55 per cent, 13.80 per cent, 14.20 per cent, and 15.00 per cent to 12.95 per cent, 13.05 per cent, 13.15 per cent, 13.25 per cent, 13.45 per cent, 14.00 per cent, and 14.90 per cent, respectively.
01/09/02	Liquid Assets ratio of commercial banks, FIA institutions and of building societies, in respect of local and foreign currency liabilities, were reduced from twenty seven percent (27%) to twenty three percent (23%).
07/08/02	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced from 14.00 per cent to 13.85 per cent and from 14.90 per cent to 14.50 per cent, respectively.
09/09/02	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were increased from 13.15 per cent to 17.25 per cent and from 13.25 per cent to 17.05 per cent, respectively.
09/10/02	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were increased from 17.25 per cent to 19.25 per cent and from 17.05 per cent to 19.40 per cent, respectively.
28/10/02	Interest rates on Bank of Jamaica 90-day and 120-day open market instruments were reduced from 19.25 per cent to 18.25 per cent and from 19.40 per cent to 18.40 per cent, respectively.

01/11/02	The interest rate chargeable in respect of breaches by commercial banks, of the cash reserve and liquid assets ratios in respect of Jamaica Dollar liabilities, was reduced from 69 per cent per annum to 45 per cent per annum. The interest rate chargeable in respect of breaches by building societies and institutions licensed under the Financial Institutions Act, of the cash reserve and liquid assets ratios in respect of Jamaica Dollar liabilities, was adjusted from one-sixth of one per centum per day to 45 per cent per annum.
10/01/03	The Bank of Jamaica instituted a "Special Deposit" requirement for Commercial Banks and institutions licensed under the Financial Institutions Act. Each institution will be required to place cash deposits with the Central Bank equivalent to 5% of its Jamaican Dollar prescribed liabilities.
10/02/03	The Bank of Jamaica introduced a special five-month open market instrument which earned interest at 30% per annum. This instrument was introduced in a context of significant Jamaica dollar liquidity and protracted instability in the foreign exchange market.
14/02/03	The Bank of Jamaica withdrew the special five- month open market instrument which was introduced on 10 February 2003. The decision to remove this instrument came against the background of tight Jamaica dollar liquidity and the appreciation in the exchange rate over the previous four days. The removal was also in response to representations made to the Bank of Jamaica by financial institutions and understandings reached with respect to the development of foreign exchange market protocols.
19/03/03	Interest rates on Bank of Jamaica’s 180-day, 270-day and 365-day open market instruments were increased to 19.65 per cent, 21.50 per cent and 24.0 per cent, respectively.
26/03/03	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were increased to 15.00 per cent, 15.30 per cent, 20.00 per cent, 24.00 per cent, 33.15 per cent, 34.50 per cent and 35.95 per cent, respectively.
25/04/03	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 28.00 per cent, 32.50 per cent and 33.00 per cent, respectively.
19/05/03	The interest rate applicable to overdrafts on accounts held with the Bank of Jamaica was increased to 65.0 per cent per annum.

24/06/03	Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 26.50 per cent, 29.50 per cent and 30.00 per cent, respectively.
08/07/03	Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced to 27.50 per cent and 28.00 per cent, respectively.
04/08/03	Interest rates on Bank of Jamaica 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 18.00 per cent, 22.00 per cent, 25.00 per cent, 25.75 per cent and 26.00 per cent, respectively.
09/09/03	Interest rates on Bank of Jamaica 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 21.00 per cent, 23.50 per cent, 23.75 per cent and 24.00 per cent, respectively.
17/10/03	Bank of Jamaica withdrew its 270-day and 365-day instruments from open market trading.
29/10/03	Bank of Jamaica returned its 270-day and 365-day instruments to open market trading at 23.75 per cent and 24.00 per cent respectively.
10/12/03	Interest rates on Bank of Jamaica 90-day 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 17.00 per cent, 20.00 per cent, 21.00 per cent, 22.00 per cent and 23.00 per cent, respectively.
09/01/04	Interest rates on Bank of Jamaica 90-day 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 16.00 per cent, 18.00 per cent, 19.50 per cent, 21.00 per cent and 22.00 per cent, respectively.
21/01/04	Interest rates on Bank of Jamaica 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 15.20 per cent, 15.50 per cent, 17.00 per cent, 18.25 per cent, 20.00 per cent and 21.00 per cent respectively.
26/01/04	Interest rates on Bank of Jamaica 30-day, 60-day, 90-day, 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 14.85 per cent, 15.00 per cent, 15.10 per cent, 16.00 per cent, 17.25 per cent, 18.75 per cent and 20.00 per cent, respectively.
16/02/04	Interest rates on Bank of Jamaica 120-day, 180-day, 270-day and 365-day open market instruments were reduced to 15.50 per cent, 16.25 per cent, 17.75 per cent and 19.00 per cent, respectively.

27/02/04 Interest rates on Bank of Jamaica 180-day, 270-day and 365-day open market instruments were reduced to 16.00 per cent, 17.25 per cent and 18.50 per cent, respectively.

10/03/04 Interest rates on Bank of Jamaica 270-day and 365-day open market instruments were reduced to 16.95 per cent and 17.95 per cent, respectively.

10/03/04 Pursuant to Section 15 (2) (h) of the Banking Act and the Financial Institutions Act, and Regulation 38 (h) of the Bank of Jamaica (Building Societies) Regulation, the Minister of Finance determined that all debt securities or instruments issued by the Government of Jamaica, whether denominated in Jamaican dollars or in a foreign currency and irrespective of their original maturity terms, shall, within nine months of their maturity date be designated Liquid Assets.

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1

INFLATION RATES
(%)

	CPI Index (e.o.p)	Head-line (Quarter)	Core (Quarter)
1998/1999	**1182.5**	**6.0**	**2.9**
1999/2000	**1281.7**	**8.4**	**4.0**
June	1205.9	2.0	0.9
September	1237.6	2.6	1.4
December	1265.9	2.3	0.9
March	1281.7	1.3	0.8
2000/2001	**1364.3**	**6.4**	**4.2**
June	1311.4	2.3	1.1
September	1349.3	2.9	1.2
December	1342.6	-0.5	0.8
March	1364.3	1.6	1.0
2001/2002	**1468.5**	**7.6**	**3.3**
June	1404.0	2.9	1.0
September	1442.7	2.7	1.1
December	1459.9	1.2	0.6
March	1468.5	0.6	0.6
2002/2003			
June	1492.8	1.7	0.9
September	1528.0	2.4	0.8
December	1566.1	2.5	1.2
March	1558.4	-0.4	1.3
2003/2004			
June	1653.1	6.0	2.3
September	1728.4	4.6	2.3
December	1786.8	3.4	2.0
March	1820.8	1.9	1.1

2A

COMPONENT CONTRIBUTION TO INFLATION All Jamaica January – March 2004			
Groups and Sub-groups	**Weight in CPI**	**Inflation (%) Q1**	**Contribution**
FOOD & DRINK	**0.5563**	**0.9**	**32.7**
- Meals Away From Home	0.0741	2.5	10.3
- Meat Poultry & Fish	0.1613	2.4	21.5
- Dairy Products Oils & Fats	0.0668	2.2	8.3
- Baked Products Cereals &Breakfast Drinks	0.0864	1.2	5.9
- Starchy Foods	0.0525	-2.9	-8.6
- Vegetables & Fruits	0.0650	-2.1	-7.7
- Other Food & Beverages	0.0502	1.1	3.1
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.0735**	**2.8**	**9.8**
- Household Supplies	0.0482	1.7	4.6
- Fuels	0.0253	3.7	5.2
HOUSING & OTHER HOUSING EXPENSES	**0.0786**	**6.4**	**27.6**
- Rental	0.0209	4.6	5.4
- Other Housing Expenses	0.0577	6.8	22.1
HOUSEHOLD FURNISHINGS & FURNITURE	**0.0283**	**3.0**	**4.4**
- Furniture	0.0068	4.1	1.6
- Furnishings	0.0215	2.3	2.8
HEALTHCARE & PERSONAL EXPENSES	**0.0697**	**1.5**	**6.1**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.0507**	**0.8**	**2.3**
- Clothing Materials	0.0055	0.3	0.1
- Readymade Clothing & Accessories	0.0242	0.5	0.7
- Footwear	0.0159	1.3	1.2
- Making & Repairs	0.0051	0.9	0.3
TRANSPORTATION	**0.0644**	**1.0**	**3.6**
MISCELLANEOUS EXPENSES	**0.0785**	**3.1**	**13.6**
ALL GROUPS	**1.0000**	**1.9**	**100.0**

2B

REGIONAL INFLATION
Quarterly
January - March 2004

Groups and Sub-groups	KMA (%)	Other Towns (%)	Rural Areas (%)
FOOD & DRINK	**1.6**	**1.0**	**0.2**
- Meals Away From Home	2.5	2.4	2.6
- Meat Poultry & Fish	2.8	3.3	1.4
- Dairy Products Oils & Fats	3.3	1.1	1.5
- Baked Products Cereals &Breakfast Drinks	1.5	1.4	0.8
- Starchy Foods	-1.6	-2.6	-3.6
- Vegetables & Fruits	-2.0	-4.2	-1.2
- Other Food & Beverages	1.6	1.1	0.6
FUELS & OTHER HOUSEHOLD SUPPLIES	**0.9**	**3.1**	**5.7**
- Household Supplies	1.1	2.7	1.9
- Fuels	0.7	3.4	8.9
HOUSING & OTHER HOUSING EXPENSES	**6.0**	**7.5**	**6.2**
- Rental	2.9	11.6	11.6
- Other Housing Expenses	7.3	7.0	5.6
HOUSEHOLD FURNISHINGS & FURNITURE	**7.1**	**0.6**	**0.6**
- Furniture	13.2	0.3	0.2
- Furnishings	4.7	0.7	0.8
HEALTHCARE & PERSONAL EXPENSES	**1.4**	**1.9**	**1.6**
PERSONAL CLOTHING FOOTWEAR & ACC.	**0.8**	**1.4**	**0.5**
- Clothing Materials	0.1	0.1	0.9
- Readymade Clothing & Accessories	0.9	0.5	0.2
- Footwear	0.9	2.9	0.8
- Making & Repairs	1.0	1.5	0.5
TRANSPORTATION	**1.2**	**1.4**	**0.3**
MISCELLANEOUS EXPENSES	**3.3**	**3.8**	**2.0**
ALL GROUPS	**2.3**	**2.2**	**1.2**

3

BANK OF JAMAICA OPERATING TARGETS
FY 2002/2003 & FY 2003/2004

	Sep-02	Dec-02	Mar-03	Jun-03	Sept-03	Dec-03	Mar 04
Net International Reserves (US$)	**1 687.3**	**1 597.0**	**1 339.7**	**1 127.4**	**1 182.6**	**1 165.0**	**1 568.7**
Net International Reserves ($J)	**82 339.3**	**81 557.8**	**75 021.5**	**63 133.8**	**69 775.2**	**68 733.8**	**95 531.4**
- Assets	84 842.7	83 911.1	77 400.4	65 251.2	71 782.9	70 583.5	97 250.0
- Liabilities	-2 503.4	-2 353.3	-2 378.9	-2 117.4	-2 007.8	-1 849.7	-1 718.6
Net Domestic Assets	**-51 714.3**	**-45 799.9**	**-42 521.6**	**-30 728.9**	**-37 152.6**	**-28 207.5**	**-59 345.0**
Net Claims on the Public Sector	47 135.8	50 873.5	63 988.5	67 611.0	70 771.5	78 657.1	76 292.8
- Net Credit to Banks	-5 044.5	-5 200.4	-12 481.5	-13 125.1	-12 814.6	-13 345.9	-13 654.5
- Open Market Operations	-96 072.3	-89 981.3	-86 203.8	-77 126.4	-83 700.3	-81 969.4	-108 281.7
- Other	2 266.7	-1 491.7	-7 824.7	-8 088.4	-11 409.2	-11 549.3	-13 701.6
Monetary Base	**30 625.0**	**35 757.9**	**32 500.0**	**32 404.9**	**32 622.6**	**40 526.3**	**36 186.4**
- Currency Issue *	19 554.2	24 354.5	20 729.7	21 259.1	21 545.7	29 426.5	24 930.6
- Cash Reserve	10 911.6	10 839.2	11 250.7	10 960.0	10 811.2	10 928.2	11 096.6
- Current Account	159.2	564.2	519.5	185.8	265.7	171.7	159.2
% change Monetary Base (F-Y-T-D)	**1.3**	**18.3**	**7.5**	**-0.3**	**0.4**	**24.7**	**11.3**

** Excludes BOJ's teller cash*

4

MONETARY AGGREGATES
(End-of-Period)
(J$MN)

	M1J	M1*	M2J	M2*	M3J	M3*
1999/2000	**31 686.8**	**37 311.4**	**92 865.8**	**122 905.4**	**109 123.2**	**139 162.8**
2000/2001						
2001/2002						
June	32 951.4	38 015.3	102 002.8	135 708.9	123 100.6	156 806.8
September	35 690.9	41 620.6	105 818.0	141 583.6	127 000.0	162 765.5
December	38 964.5	45 310.1	109 419.3	146 061.6	131 161.0	167 803.4
March	37 083.8	43 946.8	107 834.2	147 683.6	130 622.7	170 285.0
2002/2003						
June	36 864.8	43 248.6	110 235.4	150 532.0	133 902.1	174 198.5
September	42 475.0	49 450.6	117 345.1	160 591.3	142 633.2	185 879.3
December	44 704.0	51 486.7	119 330.6	165 026.0	145 583.9	191 279.3
March	33 733.5	40 791.3	107 472.2	158 719.5	136 368.0	187 615.2
2003/04						
June	37 201.6	46754.7	109 847.2	166750.9	140 414.9	197319.3
September [r]	39 838.8	49 028.9	114 121.8	172 760.3	146 844.5	205 483.0
December [r]	45 220.9	55 237.5	123 090.2	183 117.4	156 387.0	216 414.2
March [p]	44 942.9	57 124.2	124 892.5	190 784.1	160 403.2	226 294.7

J- Includes local currency liabilities only
** -Includes local and foreign currency liabilities;*
p – preliminary

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COMPONENTS OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY
2001/02 – 2003/04
(Quarterly Flows - J$MN)

	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03	Sep-03 [r]	Dec-03 [p]	Mar 04
M2J	**2 214.2**	**7 109.7**	**1 985.4**	**-11 859.0**	**2 374.8**	**4 275.4**	**8 968.3**	**1 802.3**
Currency	-29.6	104.4	2 842.0	-3075.1	1 467.4	149.1	4 237.9	-2 550.7
Demand Deposits	-189.6	5 305.8	-413.1	-7 896.0	2 001.3	2 488.0	1 144.3	2 272.8
Savings Deposits	1 971.4	132.1	1 615.5	-40.9	1 125.6	1 140.0	3 002.8	804.8
Time Deposits	462.0	1 567.4	-2 059.0	-847.0	-2 219.5	498.3	583.3	1 275.4
OTHER DEPOSITS	**1 065.3**	**1 621.4**	**965.3**	**2 642.5**	**1 672.7**	**2 154.3**	**574.1**	**2 213.9**
TOTAL (M3J)	**3 279.5**	**8 731.1**	**2 950.7**	**-9 216.5**	**4 047.5**	**6 429.7**	**9 542.5**	**4 016.2**

SOURCES OF CHANGE IN LOCAL CURRENCY MONEY SUPPLY

	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03	Sep-03 [r]	Dec-03 [p]	Mar 04
N.I.R. of B.O.J.	**-7 779.7**	**-4 634.5**	**-4 406.7**	**-13 140.9**	**-11 887.7**	**3 259.1**	**-1 041.3**	**24 584.1**
M&LTFL of B.O.J	**7.9**	**15.5**	**8.6**	**18.1**	**10.3**	**20.9**	**11.4**	**0.0**
Banking System Credit	**7 924.3**	**11 598.8**	**6 369.8**	**12 252.3**	**18 848.7**	**8 339.5**	**19 677.6**	**-17 447.3**
Public Sector	6 736.9	10 208.5	3 901.7	10 722.0	14 761.0	4 556.1	14 585.8	-22 169.1
Private Sector	1 187.4	1 390.3	2 468.1	1 530.3	4 087.7	3 783.5	5 091.8	4 721.8
Open Market Operations	**2 188.9**	**933.9**	**6 091.0**	**3 777.5**	**9 077.4**	**-6 573.9**	**1 730.9**	**-26 312.3**
Other	**938.1**	**817.4**	**-5 112.0**	**-12 123.5**	**-12 001.2**	**1 384.1**	**-10 836.1**	**23 191.7**
TOTAL	**3 279.5**	**8 731.1**	**2 950.7**	**-9 216.5**	**4 047.5**	**6 429.7**	**9 542.5**	**4 016.2**
Memo:								
Foreign Currency Deposits	634.1	2 949.7	2 449.3	5 552.4	5 685.6	1 734.1	1 388.8	5 864.3
Foreign Currency Loans	2 639.9	2 143.9	1 486.6	2 093.0	2 922.5	2 346.2	1 019.5	1 199.1

p- preliminary

r-revised

6A

SELECTED INTEREST RATES (%)
End-of-Period)

	Fixed Deposits * 3-6 months	Fixed Deposits * 6-12 months	Savings Deposits (Average)	Loan Rate (Average)	Fixed Deposits Rate (Weighted Average)	Loan Rate (Weighted Average)	Inter-bank Lending Rate (Average)
2001/2002							
June	8.75 - 17.00	8.75- 15.00	9.45	30.67	11.11	20.86	19.54
September	8.75 - 17.00	8.75- 15.00	9.08	26.96	10.52	19.41	18.39
December	7.75 - 15.00	7.75 – 15.00	9.08	26.79	10.13	19.46	18.39
March	7.75 - 15.00	7.75 - 15.00	9.36	26.29	9.86	19.60	18.99
2002/2003							
June	7.75 – 13.25	7.75 – 13.25	9.00	25.92	9.28	18.15	14.68
September	7.75 – 13.25	7.75 – 13.25	8.86	26.25	8.98	18.08	13.88
December	7.75 – 13.25	7.75 – 13.25	8.96	25.04	8.92	18.26	11.50
March	8.50-13.15	8.50 - 13.15	8.22	24.73	8.87	17.23	21.90
2003/2004							
June	8.50 – 13.15	8.50-13.15	8.22	25.18	8.98	19.23	38.40
September	8.50-13.25	8.50-13.50	8.43	25.60	9.02	19.87	17.01
December	8.50-13.25	8.50-13.50	8.43	25.60	8.68.	19.32	24.08
March	8.50 – 13.25	8.50-13.50	8.30	25.40	8.47	19.01	17.16

**Relate to deposits of $100 000 and over.*

6B

GOJ TREASURY BILL YIELDS
(End of Period)

	3-month	*6-month*	*9-month*	*12-month*
2000/2001				
June	17.68	17.47	17.88	18.10
September	16.62	17.13	16.91	16.94
December		20.16	19.67	20.98
March		16.88		17.86
2001/2002				
June	23.48	16.20		
September	22.23	15.10	15.50	
December	22.12	17.03		
March	21.49	14.30		14.96
2002/2003				
June		13.81		14.77
September		16.69	16.98	
December		17.01		
March		33.47		
2003/04				
June		28.46		
September		23.42	23.87	
December		22.05		
March	15.23	15.57		

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BANK OF JAMAICA OPEN MARKET INTEREST RATES
(End Period)

	Tenors of Instruments						
End Period	**30 days**	**60 days**	**90 days**	**120 days**	**180 days**	**270 days**	**365 days**
2000/2001							
June	17.00	17.65	17.80	17.90	18.25		
September	16.45	16.60	16.70	16.80	17.05	17.60	18.00
December	16.45	16.60	16.70	16.80	17.05	20.00	21.00
March	15.50	15.60	15.70	15.80	16.15	17.00	17.75
2001/2002							
June	14.25	14.35	14.45	14.55	14.75	15.35	15.90
September	14.25	14.35	14.45	14.55	14.75	15.35	15.90
December	14.25	14.35	14.45	14.55	15.00	18.40	18.90
March	13.25	13.35	13.45	13.55	13.80	14.20	15.00
2002/2003							
June	13.25	13.35	13.45	13.55	13.80	14.20	15.00
September	12.95	13.05	17.25	17.05	13.45	13.85	14.50
December	12.95	13.05	18.25	18.40	13.45	13.85	14.50
March	15.00	15.30	20.00	24.00	33.15	34.50	35.95
2003/2004							
June	15.00	15.30	20.00	24.00	26.50	29.50	30.00
September	15.00	15.30	18.00	21.00	23.50	23.75	24.00
December	15.00	15.30	17.00	20.00	21.00	22.00	23.00
March	14.85	15.00	15.10	15.50	16.00	16.95	17.95

8A

JAMAICA: GOVERNMENT BOND MARKET
GOJ Maturities
January – March 2004

Maturity Date	Stock Name	Amount J$M	Applicable Interest Rate [b/]
05 January	FR LRS 2004 AC	300.0	14.125
07 January	24.50% FR LRS 2004	400.0	24.50
09 January	22.50% FR LRS 2004	350.0	22.50
28 January	24.00% FR LRS 2004	500.0	24.00
06 February	VR LRS 2003/2005 (Tr. B)	500.0	24.57
24 February	GOJ Inv. Deb. 2004 Ser. “Z”	7 162.5	36.25
27 February	FR US$25.0 mn Bd. 2004 Tr. 2	US$12.5	11.25
05 March	VR LRS 2004 A	3 210.4	28.74
	VR LRS 2004 C	2 925.6	26.21
12 March	32.625% FR LRS 2004	580.0	32.625
19 March	VR LRS 2003/2004R Tr. 4	182.0	26.24
30 March	33.90% FR LRS 2004	1 000.0	33.90
31 March	VR LRS 2001/2006 Trs. J	325.0	23.42

Notes:
a/ Rate above Treasury is the 6-month Treasury bill rate in effect at the beginning of the interest period.
b/ The withholding tax of 25% on interest income has been in effect since May 1, 2000.
c/ A/Y- Average Yield
d/ FR – Fixed Rate
e/VR-Variable Rate
Source: Debt Management Unit, Ministry of Finance & Planning

8B

JAMAICA: GOVERNMENT BOND MARKET
GOJ Domestic Market Issues
January – March 2004

Issue Date	Stock Name	Features	Amount Raised J$M
13-16 January	VR Investment Bond 2005/2006 Series “D”	Tenor of 22 months. Interest rate fixed at 22.125% for first 6 months. Thereafter quarterly payments of 1.75% above Treasury Bill rate.	3 168.69
22-28 January	FR 22.125% Inv. Debenture 2006 Series “Ae”	Tenor of 24 months. Interest rate fixed at 22.125%. Principal paid in two installments, 28 February 2005 and at maturity on 28 January 2006. Interest payable 4 months after issue. Thereafter quarterly interest payments.	5 417.19
23-27 February	VR Investment Bond 2007/2008 Series “E”	Tenor of 48 months. Interest rate fixed at 17.00% for first 6 months. Thereafter quarterly payments of 1.50% above Treasury Bill rate.	1 061.18
5-9 March	VR Investment Bond 2006/2007 Series “F”	Tenor of 30 months. Interest rate fixed at 16.31% for first 6 months. Thereafter quarterly payments of 1.50% above Treasury Bill rate.	1 634.11

Notes:
a/
Source: Debt Management Unit, Ministry of Finance & Planning

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EXTERNAL TRADE – GOODS EXPORTS (f.o.b)
(Flows - US$MN)

	Bauxite	Alumina	Sugar	Bananas	Other Traditional	Non-Traditional	Other	Total Goods Exports
999/2000	**49.1**	**664.6**	**103.5**	**26.6**	**68.9**	**346.9**	**290.9**	**1 550.5**
June	20.3	145.5	54.6	7.6	15.2	88.9	71.3	403.4
September	7.6	166.0	5.5	7.5	19.8	92.4	80.5	379.3
December	8.1	182.0	0.0	6.3	16.6	84.9	71.6	369.5
March	13.1	171.1	43.4	5.2	17.3	80.7	67.5	398.3
2000/2001	**56.1**	**670.6**	**69.4**	**22.3**	**74.8**	**330.9**	**291.5**	**1 515.6**
June	10.4	167.9	33.6	5.5	20.5	90.6	76.6	405.1
September	8.2	163.8	6.2	6.2	18.3	81.7	80.7	365.1
December	13.9	181.4	0.0	6.1	17.0	91.3	76.4	386.1
March	23.6	157.5	29.6	4.5	19.0	67.3	57.8	359.3
2001/2002 [r]	**97.7**	**629.5**	**68.5**	**17.9**	**72.0**	**291.1**	**247.1**	**1 423.8**
June	23.5	182.0	34.9	5.0	18.9	66.0	69.2	399.5
September	25.5	174.3	6.1	4.0	18.5	73.5	72.1	374.0
December	20.7	122.4	0.0	4.4	15.7	93.4	63.9	320.5
March	28.0	150.8	27.5	4.5	18.9	58.2	41.9	329.8
2002/2003	**99.1**	**614.4**	**64.5**	**17.7**	**74.4**	**227.8**	**204.9**	**1 302.8**
June	22.9	138.9	30.6	4.5	20.9	51.3	56.2	325.3
September	25.4	147.1	8.0	4.4	20.5	60.3	67.9	333.6
December	29.9	167.0	0.0	4.1	14.2	59.3	46.0	320.5
March	20.9	161.4	25.9	4.7	18.8	56.9	34.8	323.4
2003/2004								
June [r]	23.1	164.1	28.9	5.0	17.6	52.4	47.4	338.5
September [p]	22.2	182.3	10.4	4.4	18.5	66.0	55.7	359.5
December								

r-revised

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EXTERNAL TRADE – GOODS IMPORTS (c.i.f) (Flows - US$MN)	Consumer Goods	*Raw* Materials	Capital Goods	Other	Total Imports
1999/2000	**965.0**	**1 614.0**	**508.4**	**180.7**	**3 268.2**
June	220.4	395.5	123.6	47.1	786.6
September	227.5	385.7	104.8	50.9	768.9
December	298.0	410.5	130.1	42.0	880.6
March	219.1	422.3	149.9	40.8	832.1
2000/2001	**982.0**	**1 761.2**	**519.1**	**167.6**	**3 429.9**
June	228.5	442.2	119.2	42.3	832.2
September	245.8	422.6	120.2	43.5	832.1
December	282.5	426.1	121.8	53.9	884.3
March	225.2	470.3	157.9	27.9	881.3
2001/2002					
June	241.0	444.1	127.7	61.3	874.1
September	238.4	431.1	156.6	47.5	873.6
December	279.9	475.2	133.9	35.4	924.4
March	240.9	405.9	147.1	25.6	819.5
2002/2003					
June	265.4	410.9	176.2	40.9	893.4
September	271.6	539.3	167.2	39.1	1 017.2
December	316.5	442.6	180.5	25.6	965.2
March [r]	260.4	558.1	150.3	23.2	992.0
2003/2004					
June [p]	244.7	495.3	138.5	50.8	929.3
September	252.8	478.5	144.3	33.5	909.1
December					

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BALANCE OF PAYMENTS SUMMARY
(Flows – US$M)

	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03 [r]	Sep-03 [p]	Dec-03 [p]
1. Current Account	**-262.8**	**-343.0**	**-343.1**	**-263.9**	**-228.5**	**-189.7**	**-286.1**
A. Goods Balance	**-440.7**	**-545.0**	**-507.5**	**-533.9**	**-463.9**	**-423.9**	**-531.6**
Exports (f.o.b.)	325.3	333.6	320.5	323.4	338.5	359.5	330.8
Imports (f.o.b.)	766.0	878.6	828.0	857.3	802.4	783.4	862.4
B. Services Balance	**50.9**	**64.0**	**62.3**	**165.1**	**101.9**	**107.2**	**104.5**
Transportation	-62.7	-70.3	-63.8	-46.2	-53.6	-52.5	-52.4
Travel	220.1	244.3	238.6	320.8	258.8	267.3	262.9
Other Services	-106.5	-110.0	-112.5	-109.5	-103.3	-107.6	-106.0
Goods & Services Balance	**-389.8**	**-481.0**	**-445.2**	**-368.8**	**-362.0**	**-316.7**	**-427.1**
C. Income	**-150.7**	**-145.0**	**-163.5**	**-165.5**	**-133.1**	**-151.3**	**-178.7**
Compensation of Employees	13.9	32.4	32.8	4.9	8.2	27.7	34.7
Investment Income	-164.6	-177.4	-196.3	-170.4	-141.3	-179.0	-213.4
D. Current Transfers	**277.7**	**283.0**	**265.6**	**270.4**	**266.6**	**278.3**	**319.7**
General Government	24.9	33.6	23.9	21.7	20.9	21.6	20.5
Other Sectors	252.8	249.4	241.7	248.7	245.7	256.7	299.2
2. Capital & Financial Account	**262.8**	**343.0**	**343.1**	**263.9**	**228.5**	**189.7**	**286.1**
A. Capital Account	**-4.7**	**-3.6**	**-3.0**	**-5.0**	**-4.7**	**-4.4**	**-3.0**
Capital Transfers	-4.7	-3.6	-3.0	-5.0	-4.7	-4.4	-3.0
General Government	0.1	0.0	0.0	0.1	0.0	0.0	0.0
Other Sectors	-4.8	-3.6	-3.0	-5.1	-4.7	-4.4	-3.0
B. Financial Account	**267.5**	**346.6**	**346.1**	**237.6**	**233.2**	**194.1**	**289.1**
Direct Investment	74.4	73.8	111.3	87.2	94.5	91.8	100.0
Other Official Investment	21.0	-52.9	56.9	-251.5	-51.1	-38.2	-27.0
Other Private Investment (including net errors & omissions)	12.7	230.8	87.6	175.9	-22.5	195.7	198.4
Reserves	159.4	94.9	90.3	257.3	212.3	-55.2	17.7

r-revised

p-provisional

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PRIVATE SECTOR QUARTERLY REMITTANCE INFLOWS (US$MN)

	Commercial Banks	Remittance Companies	Post Offices	Building Societies	Other	Total
2000/2001	**180.9**	**479.0**	**1.2**	**156.8**	**25.7**	**843.6**
June	40.3	109.5	0.3	37.0	6.0	193.1
September	28.6	120.8	0.3	36.9	6.3	192.9
December	50.6	125.4	0.3	39.3	6.5	222.1
March	61.4	123.3	0.3	43.6	6.9	235.5
2001/2002	**170.2**	**595.3**	**1.2**	**202.4**	**27.3**	**996.4**
June	43.1	136.2	0.3	43.5	6.9	230.0
September	46.9	143.0	0.3	50.4	6.9	247.5
December	25.6	163.7	0.3	58.0	6.9	254.5
March	54.6	152.4	0.3	50.5	6.6	264.4
2002/2003	**293.5**	**621.1**	**1.2**	**252.6**	**43.2**	**1 211.6**
June	73.4	157.2	0.3	58.8	6.6	296.3
September	74.1	150.3	0.3	65.6	6.6	296.9
December	66.5	159.7	0.3	65.8	6.6	298.9
March	79.5	153.9	0.3	62.4	23.4	319.5
2003/2004	**330.8**	**696.8**	**1.2**	**297.8**	**93.6**	**1 420.2**
June	58.8	169.8	0.3	63.2	23.4	315.5
September	74.5	169.1	0.3	71.7	23.4	339.0
December	100.8	183.0	0.3	80.4	23.4	387.9
March	96.7	174.9	0.3	82.5	23.4	377.8

13

BANK OF JAMAICA: NET INTERNATIONAL RESERVES (End-of-Period)

	Gross Foreign Assets	Gross Foreign Liabilities	International Reserves (Net)	Weeks of Imports: Goods	Weeks of Imports: Goods & Services
2000/2001					
June	848.3	91.9	756.5	15.0	10.2
September	1022.1	86.7	935.5	17.9	12.3
December	1048.8	79.3	969.5	18.3	12.6
March	1361.9	75.6	1286.3	24.0	16.4
2001/2002					
June	1612.5	71.9	1540.5	27.3	18.6
September	1605.9	69.2	1536.7	27.1	18.6
December	1903.3	62.6	1840.7	33.2	22.5
March	2000.3	58.7	1941.6	34.9	23.6
2002/2003					
June	1837.5	55.2	1782.3	31.2	20.6
September	1738.6	51.3	1687.3	29.5	19.5
December	1643.1	46.1	1597.0	27.9	18.4
March	1382.2	42.5	1339.7	22.1	14.8
2003/2004					
June	1 165.2	37.8	1 127.4	18.3	12.0
September	1216.6	34.0	1182.6	19.0	12.8
December	1 196.3	31.4	1 164.9	18.3	12.5
March	1 596.9	28.2	1 568.7	25.0	16.6

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FOREIGN EXCHANGE SELLING RATES
(J$ per unit of foreign currency-end period)

	US$	Can$	UK£
1999/2000			
June	38.97	25.65	59.29
September	40.00	26.72	63.79
December	41.42	27.80	65.80
March	42.14	29.01	66.65
2000/2001			
June	42.51	28.17	62.73
September	44.83	29.25	64.15
December	45.53	29.51	66.78
March	45.68	29.17	64.11
2001/2002			
June	45.82	29.80	63.94
September	45.94	29.00	66.74
December	47.40	29.45	67.94
March	47.61	29.88	67.14
2002/2003			
June	48.51	31.95	72.98
September	49.27	31.11	76.60
December	50.97	32.09	80.97
March	56.24	37.48	87.41
2003/2004			
June	59.01	43.69	96.79
September	59.71	43.92	98.54
December	60.62	46.59	107.45
March	61.01	46.46	111.34

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STOCK MARKET ACTIVITIES
Jamaica Stock Exchange

	JSE Index	***Volume Traded (M.)***	***Value of Stocks Traded (J$M.)***
2000/2001	**29,701.9**	**669.4**	**3,683.0**
June	31,338.3	300.9	1,480.3
September	31,152.7	95.6	591.4
December	28,893.2	116.5	773.0
March	29,701.9	156.4	838.3
2001/2002			
June	35,723.6	2 315.0*	3 584.2
September	33,892.4	182.8	840.4
December	33,835.6	171.3	704.9
March	37,446.0	417.7	1, 19.5
2002/2003			
June	38,606.7	404.9	1 35.9
September	39,219.6	401.1	2 32.1
December	45,396.2	380.9	1 49.4
March	46,982.0	1 240.1	7 155.5
2003/2004			
June	50 478.9	352.4	2 077.7
September	57 769.1	2 167.4	11 321.3
December	67 586.7	530.5	3 682.9
March	99 630.2	3 380.8	14 533.7

*Both volume and value reflect ordinary and block transactions

** Includes a large block of transaction arising from the de-listing of Union Bank of Jamaica*

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PUBLIC SECTOR DOMESTIC SECURITIES
Government of Jamaica
Outstanding Stocks

(J$MN)

End Period	Local Registered Stocks	Treasury Bills	Bonds	BOJ Open Market Operations Securities
1999/2000				
June	112 513.0	10200.0	25 603.0	38 469.9
September	116 959.5	9 900.0	31 266.7	36 703.9
December	130 939.9	10 650.0	32 165.4	29 286.9
March	126 022.9	9 550.0	36 510.4	39 490.9
2000/2001				
June	131 477.8	9 750.0	37 268.0	45 066.2
September	132 589.8	9 850.0	38 789.9	51 885.6
December	134 896.5	7 600.0	41 920.6	51 800.9
March	159 734.8	6 950.0	45 107.7	61 441.4
2001/2002				
June	226 655.6	6 900.0	48 981.5	74 164.5
September	230 172.6	5 450.0	53 437.6	77 525.5
December	217 361.8	3 900.0	71 004.0	85 628.3
March	212 110.0	4 250.0	79 151.0	99 195.3
2002/2003				
June	219 738.5.	4 350.0	80 516.1.	97 006.3
September	232 873.9	4 350.0	88 274.7	96 072.3
December	240 843.3	4 150.0	99 432.9	89 981.3
March	240 923.0	2 950.0	114 524.1	-86 203.8
2003/2004				
June	241,163.2	2 000.0	137,960.0	77 126.4
September	232 914.5	2 400.0	160 594.3	83 700.3
December	228 509.3	4 400.0	178 308.3	81 969.4
March	220 819.2	3 750.0		108 281.7

17

PRODUCTION OF SELECTED COMMODITIES
(Flows- 000' tonnes)

	Bauxite	Alumina	Sugar	Bananas*
2000/2001	**2 420.4**	**3 617.8**	**185.4**	**44.1**
June	527.8	893.8	78.2	9.7
September	372.3	897.9	1.6	10.8
December	587.1	911.4	3.5	12.2
March	933.1	914.7	102.1	11.3
2001/2002	**3 808.4**	**3 493.7**	**184.8**	**42.3**
June	888.5	943.4	91.5	11.0
September	997.2	946.3	7.3	9.9
December	816.1	738.0	4.2	10.8
March	1 106.6	866.0	81.8	10.6
2002/2003	**3 917.5**	**3 698.7**	**186.1**	**37.7**
June	888.1	887.3	76.8	10.3
September	961.2	932.0	11.8	9.7
December	1 110.8	945.2	4.7	9.3
March	964.4	934.2	92.8	8.4
2003/2004	**3 842.4**	**3 956.4**	**174.7**	**40.1**
June	992.9	957.0	53.7	9.9
September	975.3	939.8	1.3	10.2
December	916.7	1 012.6	5.9	10.5
March	957.5	1 047.0	113.8	9.5

** Exports*

18

GROSS DOMESTIC PRODUCT BY INDUSTRY IN PRODUCER'S VALUES, AT CONSTANT (1996) PRICES
March 2002 - Dec 2003 (Seasonally Unadjusted)
Year over Year % Change

	Mar-02	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03	Sep-03	Dec-03
Total Gross Domestic Product	-0.29	-0.24	1.52	3.61	2.82	2.18	1.61	1.88
Agriculture, Forestry & Fishing	-5.86	-5.81	-6.42	-9.94	3.28	3.33	6.52	10.26
Export Agriculture	-7.40	-6.49	8.67	3.49	5.69	-12.73	-15.44	4.12
Domestic Agriculture, Livestock, Forestry & Fishing	-5.41	-5.59	-8.43	-11.95	2.60	8.55	9.99	11.34
Mining & Quarrying	-2.58	-4.50	-0.96	25.04	5.81	7.99	1.16	4.46
Manufacturing	-1.94	-4.24	1.35	2.29	0.13	-0.77	-1.33	-2.05
Food, Beverages & Tobacco	-0.20	-4.95	5.20	0.50	-0.23	4.26	-2.45	-4.57
Other Manufacturing	-4.19	-3.32	-2.95	4.35	0.61	-7.22	0.02	0.74
Electricity & Water	2.82	5.96	3.60	6.16	5.54	5.78	4.86	2.77
Construction & Installation	-0.15	1.91	2.88	4.59	0.99	1.11	1.22	1.03
Distributive Trade	-0.12	0.38	0.54	0.62	0.94	1.10	1.33	1.77
Transport, Storage & Communication	6.92	4.30	7.01	6.97	6.41	3.23	0.71	1.78
Finance & Insurance Services	1.23	11.12	3.97	8.15	9.64	4.53	5.52	0.18
Real Estate & Business Services	1.05	-0.16	0.81	0.79	1.66	2.21	1.10	0.35
Producers of Government Services	0.88	0.85	0.46	-0.32	-0.35	-0.42	-0.09	0.67
Miscellaneous Services Household and Private Non-Profit Institutions	-6.31	-5.76	5.05	9.94	5.25	4.92	3.95	5.40
Hotels, Restaurants & Clubs	-9.20	-8.38	6.39	14.16	6.80	6.35	4.85	6.17
Less Imputed Bank Service Charge	0.64	6.93	8.85	5.53	4.92	3.11	2.25	0.92

D. BANK OF JAMAICA BALANCE SHEET

ASSETS AND LIABILITIES
(End of Period)
J$MN

	Mar-02	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03	Sept-03	Dec-03	Mar-04
Assets	**173 579.0**	**166 610.3**	**152 220.5**	**151 282.4**	**152 765.6**	**149 552.0**	**156 818.4**	**165 318.2**	**186 811.5**
Foreign	95 228.9	88 833.0	85 369.6	83 071.5	77 202.2	68 606.6	72 298.2	72 134.5	97 232.2
Current Account & Foreign Currency Balances	7 769.8	5 025.5	5 048.1	6 880.4	9 318.5	5 105.0	11 163.0	6 091.0	6 881.8
Time Deposits & Securities	85 539.9	81 873.3	78 281.9	74 108.9	65 607.9	60 573.9	54 278.5	60 805.0	84 931.4
Holdings of Special Drawing Rights	42.0	18.4	63.8	39.9	20.2	6.5	19.7	3.2	4.8
Other	1 877.2	1 915.8	1 975.8	2 042.3	2 255.6	2 921.2	6 837.0	5 235.3	5 414.2
Local	78 350.1	77 777.3	66 850.9	68 210.9	75 563.4	80945.4	84 520.2	93 183.7	89 579.3
Public Sector Securities	56 109.5	52 802.2	56 752.1	57 237.4	54 975.0	66 907.0	68 465.9	78 147.1	77 836.0
Other Assets	22 240.6	24 975.1	10 098.8	10 973.5	20 588.4	14 038.4	16 054.3	15 036.6	11 743.3
Liabilities	**173 579.0**	**166 610.3**	**152 220.5**	**151 282.4**	**152 765.6**	**149 552.0**	**156 818.4**	**165 318.2**	**186 811.5**
Foreign	411.5	442.6	405.8	434.6	484.6	467.9	459.2	479.3	459.8
Local	173 167.5	166 167.8	151 814.7	150 847.8	152 281.0	149 084.1	156 359.1	164 839.0	186 351.7
Currency in Circulation	19 481.9	19 318.5	19 587.3	24 387.3	20 772.3	21 309.9	21 587.9	29 467.0	24 978.0
Deposits	145 003.5	137 793.2	121 123.3	118 055.4	117 110.0	110 145.7	115 342.8	112 076.8	146 088.2
Bankers	16 225.9	16 925.7	17 264.9	17 729.8	25 401.0	25 474.3	25 022.0	25 659.9	26 197.7
Government	7 591.3	6 933.6	3 916.6	4 484.3	1 760.2	3 280.1	2 000.8	1 235.2	5 045.7
Open Market Operations	99 195.3	97 006.3	96 072.3	89 981.3	86 203.8	77 126.4	83 700.3	81 969.4	108 281.7
Other	21 991.0	16 927.6	3 869.5	5 860.0	3 745.0	4 264.9	4 619.7	3 212.3	6 563.1
Allocation of Special Drawing Rights	2 347.0	2 462.0	2 462.0	2 462.0	2 462.0	3 203.0	3 203.0	3 203.0	3 203.0
Capital & Reserves	24.0	24.0	24.0	24.0	24.0	4.0	4.0	4.0	24.0
Other Reserves	1 174.8	1 195.8	1 195.8	1 944.2	1 944.2	1 640.8	1 628.8	990.3	1 270.4
Other Liabilities	5 136.3	5 374.2	7 422.3	3 974.9	9 968.5	12 780.7	14 592.7	19 097.8	10 788.1

E. COMMERCIAL BANKS' BALANCE SHEET

ASSETS AND LIABILITIES
(End-of -period)
J$MN

	Mar-02	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03 [r]	Sept-03 [r]	Dec-03 [r]	Mar-03 [p]
Assets	**252 908.2**	**251 817.0**	**259 213.3**	**262 577.9**	**285 881.7**	**295 647.2**	**306 632.7**	**313 516.6**	**331 201.1**
Cash	1 997.9	1 854.6	2 030.1	3 988.3	3 438.6	2 500.6	2 638.1	6 281.0	4 335.8
Balances with BOJ	44 646.1	43 993.1	41 726.7	40 111.1	41 414.8	37 224.0	40 947.6	40 249.2	50 545.4
Foreign Assets	44 923.5	44 285.3	46 039.2	47 540.2	62 782.3	58 847.3	56 953.0	59 938.9	62 415.4
Loans & Advances	51 354.7	58 100.8	67 046.0	73 943.3	79 685.4	87 067.4	91 254.9	99 150.0	102 504.2
Private Sector	37 932.9	42 306.9	46 261.6	50 882.0	52 897.6	60 255.0	66 396.8	71 638.4	75 699.2
Public Sector	13 421.8	15 793.9	20 784.4	23 061.3	26 787.8	26 812.4	24 858.1	27 511.6	26 805.0
Public Sector Securities	76 010.5	74 677.2	72 564.8	68 829.3	66 143.2	78 275.4	79 905.7	74 852.1	66 767.2
Cheques in the Process of Collection	6 175.9	4 487.6	3 949.2	3 794.0	4 024.4	5 041.7	3 023.1	2 584.2	6 310.9
Other Assets	27 799.6	24 418.4	25 857.3	24 371.7	28 393.0	26 690.8	31 910.3	30 461.2	38 322.2
Liabilities	**252 908.2**	**251 817.0**	**259 213.3**	**262 577.9**	**285 881.7**	**295 647.2**	**306 632.7**	**313 516.6**	**331 201.1**
Deposits	165 541.3	169 908.3	177 801.9	178 979.5	188 441.5	189 816.3	194 580.3	198 774.8	216 777.3
Foreign Liabilities	14 863.8	14 758.0	13 237.4	12 691.1	14 085.8	14 903.7	16 771.1	15 900.5	15 860.8
Discounts & Advances from BOJ	43.9	60.2	61.2	134.9	187.1	235.7	95.6	167.7	276.7
Loans/Advances from Other Institutions	9 017.9	6 377.4	6 729.3	7 309.4	7 632.5	7 813.2	8 674.7	9 431.7	7 741.2
Cheques in the Process of Payment	3 324.6	2 369.6	2 614.2	2 565.0	2 150.6	3 383.4	2 161.0	2 112.4	3 279.7
Other Liabilities	60 116.7	58 343.5	58 769.3	60 898.0	73 384.2	79 494.9	84350.0	87 129.5	87 265.1

P = preliminary
r = revised

F. INTERNATIONAL INDICATORS

1

LONDON INTERBANK OFFER RATE–LIBOR
(End- of-Period)

	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
2000/2001				
June	6.6563	6.8125	7.0000	7.2188
September	6.6250	6.8125	6.7500	6.8125
December	6.5625	6.4063	6.2188	5.9688
March	5.0938	4.8750	4.7188	4.6563
2001/2002				
June	3.7900	3.7300	3.7300	3.9400
September	2.6300	2.5900	2.5225	2.6425
December	1.8738	1.8813	1.9813	2.4425
March	1.8788	2.0300	2.3300	3.0025
2002/2003				
June	1.8387	1.8600	1.9562	2.2862
September	1.8113	1.7900	1.7100	1.7250
December	1.3820	1.3830	1.3830	1.4470
March	1.3000	1.2787	1.2312	1.2800
2003/2004				
June	1.1620	1.1225	1.0815	1.0944
September	1.1200	1.4246	1.1856	1.3525
December	1.1326	1.1670	1.2274	1.4688
March	1.0923	1.1122	1.1585	1.3251

2

LONDON MONEY RATES – INTERBANK STERLING
(End- of-Period)

	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
2000/2001				
June	5 7/8 - 6	6 1/16 - 6 3/16	6 3/16 - 6 5/16	6 3/8 – 6 1/2
September	6 - 6 1/8	6 1/8 - 6 1/4	6 3/16 - 6 5/16	6 1/4 – 6 3/8
December	5 11/16 - 5 7/8	5 3/4 - 5 29/32	5 3/4 - 6 7/8	5 11/16 – 5 13/16
March	5 9/16 – 5 11/16	5 3/8 – 5 1/2	5 3/16 – 5 5/16	5 5/32 – 5 9/32
2001/2002				
June	5 – 51/8	5 1/8 – 5 1/4	5 1/4 - 5 3/8	5 1/2 – 5 5/8
September	4 9/16 – 4 11/16	4 13/32 – 4 7/32	4 3/8 – 4 1/2	4 13/32 – 4 7/32
December	4 1/32 – 4 5/32	4 –4 1/8	4 1/32 – 4 5/32	4 3/8 – 4 17/32
March	3 29/32 – 4 1/32	3 29/32 – 4 1/32	4 5/16 – 4 7/16	4 23/32 – 4 7/32
2002/2003				
June	4 - 3 29/32	4 1/8 - 4 1/32	4 9/32 - 4 3/16	4 21/32 - 4 9/16
September	3 15/16 – 3 27/32	3 29/32 – 3 3/16	3 7/8 – 3 25/32	3 7/8 – 3 25/32
December	4 1/16 – 3 15/16	4 1/32 – 3 29/32	4 – 3 7/8	4 – 3 7/8
March	3 21/32 – 3 19/32	3 21/32 – 3 9/16	3 9/16 – 3 1/2	3 9/16 – 3 7/16
2003/2004				
June	3 11/16 – 3 9/16	3 19/32 – 3 17/32	3 17/32 – 3 15/32	3 17/32 – 3 7/16
September	3 5/8 – 3 17/32	3 11/16 – 3 19/32	3 25/32 – 3 11/16	3 31/32 – 3 7/8
December	4 6/7 – 3 6/8	4-3 7/8	4 5/16 – 4 3/16	4 19/32 – 4 15/32
March	4 3/16 – 4 1/16	4 3/8 – 4 1/4	4 9/16 – 4 7/16	4 3/4 - 4 5/8

3

PRIME LENDING RATES (End- of-Period)					
	EURO-ZONE	UNITED STATES			UK
	Repo rate	Fed Funds Rate	Discount Rate	Prime Rate	Prime Rate
2000/2001					
June	4.25	7.00	6.00	9.50	6.00
September	4.50	6.50	6.00	9.50	6.00
December	4.75	6.50	6.00	9.50	6.00
March	4.75	5.00	4.50	8.00	5.75
2001/2002					
June	4.50	3.75	3.25	6.75	5.25
September	3.75	3.00	2.50	6.00	4.75
December	3.25	1.75	1.25	4.75	4.00
March	3.25	1.75		4.75	4.00
2002/2003					
June	3.25	1.75	1.25	4.75	4.00
September	3.25	1.75	1.25	4.75	4.00
December	2.75	1.25	0.75	4.25	4. 00
March	2.50	1.25	2.25	4.25	3.75
2003/2004					
June	2.00	1.00	2.00	4.00	3.75
September	2.00	1.00	2.00	4.00	3.50
December	2.00	1.00	2.00	4.00	3.75
March	2.00	1.00	2.00	4.00	4.00

4A

INTERNATIONAL EXCHANGE RATES
US$ vs. OTHER MAJOR CURRENCIES
(currency/US$)
(End- of-Period)

		Jun-02	Sep-02	Dec-02	Mar-03	Jun-03	Sept-03	Dec-03	Mar-04
US$ vs.	Sterling	0.6560	0.6369	0.6306	0.6327	0.6050	0.6192	0.5603	0.5476
US$ vs.	Canadian $	1.5209	1.5858	1.5593	1.4711	1.3553	1.3632	1.2924	1.3284
US$ vs.	Yen	119.86	121.73	121.98	118.58	119.86	114.79	107.11	108.51
US$ vs.	Euro	1.0126	1.0123	0.9820	0.9164	0.8693	0.8878	0.7939	0.8155

4B

INTERNATIONAL EXCHANGE RATES
EXCHANGE CROSS RATES
(March 2004)

	GBP	C$	US$	Yen	Euro
U.K.	1	2.415	1.838	191.2	1.496
Canada	0.414	1	0.761	79.16	0.619
U.S.	0.544	1.314	1	104.0	0.814
Japan	0.523	1.263	0.961	100	0.782
Euro	0.669	1.615	1.229	127.8	1

4C

INTERNATIONAL EXCHANGE RATES
STERLING vs OTHER MAJOR CURRENCIES
(End of Period)

	Sep-02	Dec-02	Mar-03	Jun-03	Sept-03	Dec-03
Sterling vs. US$	1.5701	1.5859	1.5805	1.6529	1.6157	1.7847
Sterling vs Canadian $	2.4899	2.4730	2.3251	2.2402	2.2022	2.3066
Sterling vs Yen	198.12	196.52	185.40	196.52	191.17	196.52
Sterling vs Euro 1/	1.5895	1.5572	1.4484	1.4369	1.4338	1.4168

5A

WORLD COMMODITY PRICES
KEY CRUDE OIL PRICES (US$/barrel – f.o.b.)
(End- of-Period)

	Sep-02	Dec-02	Mar-03	Jun-03	Sept-03	Dec-03	Mar-04
UAE's Dubai Light	24.23	29.18	27.51	26.21	23.29	23.69	30.46
North Sea Brent	23.69	24.13	28.34	28.52	30.34	27.55	33.80
West Texas Intermediate	22.38	25.51	25.51	25.51	29.67	29.44	36.73

5B

WORLD COMMODITY PRICES ALUMINIUM *(US$ per tonne)* (End- of-Period)						
	Dec-02	**Mar-03**	**Jun-03**	**Sept-03**	**Dec-03**	**Mar-04**
Spot (Cash)	1344.5	1330.0	1389.0	1475.89	1512.3	1688.5
3 Month	1348.0	1345.0	1366.0	1423.5	1567.8	1707.5

5C

WORLD COMMODITY PRICES FOOD (End- of-Period)							
	Sep-02	**Dec-0**	**Mar-03**	**Jun-03**	**Sept-03**	**Dec-03**	**Mar-04**
Wheats **(US$/mt)**	166.1	176.7	147.4	137.3	145.6	165.6	166.3
Coffee (USc/kg arabica brand)	126.0	146.8	142.4	131.4	146.4	143.0	172.1

6

MAJOR STOCK MARKET INDICES (End- of-Period)							
	Sep-02	**Dec-02**	**Mar-03**	**Jun-03**	**Sept-03**	**Dec-03**	**Mar-04**
TOKYO							
Nikkei Index	11024.94	10621.84	9383.29	8578.95	7972.71	9083.11	11715.39
NEW YORK							
Dow Jones Industrials	10426.91	9243.26	7591.93	8341.63	7992.13	8985.44	10357.70
S & P Composite	1144.58	1122.78	945.28	879.82	848.12	974.50	1126.21
LONDON							
Financial Times SE 100	5271.80	4656.40	3721.80	3940.40	3613.30	4031.20	4385.70
FRANKFURT							
Dax Index	2769.03	2423.87	2423.87	3220.58	3256.78	4095.71	3856.70
ZURICH							
SMI Index	4783.00	4085.60	4085.60	4813.70	5043.5	5768.2	5618.60

Glossary

Amortization: The repayment of a loan in installments over an agreed period of time.

Base Money: The sum of notes and coins held by the public and the cash reserves of commercial banks (including both their holding of cash and their deposits at the central bank). The monetary base is the operating target used in the BOJ monetary policy framework and can be controlled through open market operations.

Bond Market: The domestic bond market primarily captures debt instruments offered by the Central Government to fund its budgetary needs.

Cash Reserve Requirement: The requirement by law that a percentage of deposit liabilities of deposit-taking institutions must be held as interest free deposits at the Central Bank.

Core Inflation: Also called ***Underlying Inflation***. It is that part of overall inflation that can be attributed to changes in base money. Central Banks typically try to control core inflation because there are some parts of inflation that are outside of their control. One example of this is the effect of changes in oil prices.

Credit: Loans extended by banks, building societies and other financial institutions.

Exchange rate (nominal): The number of units of one currency offered in exchange for another. For example a Jamaica dollar/United States dollar exchange rate of 'forty two dollars to one' indicates that forty-two Jamaican dollars are needed to obtain one United States dollar.

Exchange rate pass-through: The effect of exchange rate changes on one or more of the following: import and export prices, consumer prices, investments and trade volumes.

Foreign exchange cash demand/supply: The amount of foreign exchange purchased by market participants from the authorized dealers and cambios, while ***cash supply/inflows*** is the amount sold to the Bank of Jamaica, authorized dealers and cambios by market participants, private institutions and multilateral agencies.

Financial Programme: An integrated system of macroeconomic accounts and behavioural relationships defining the set of monetary, fiscal and exchange rate policy measures designed to achieve specified macroeconomic targets.

Financial Asset: An instrument issued by an institution (e.g. BOJ) that provides economic benefits, by (1) generating interest income or net profits and (2) acting as a store of value. These benefits are created through a formal/informal borrowing/lending relationship. Most common types of financial assets are money and credit.

Fiscal deficit: The excess of the Government's expenditure over its revenue for a given period of time.

Fiscal Year: The twelve months beginning in April. Thus fiscal year 2000/2001 refers to the period April 2000 to March 2001.

Government Securities: Debt instruments issued by the Ministry of Finance either to bridge timing gaps between revenue and expenditure or to cover any excess of expenditure over revenue. These securities include short-term instruments such as Treasury Bills and more long term ones like Local Registered Stock, or Debentures.

Gross Domestic Product (GDP)*:* This is the total value of all goods and services produced within an economy over a particular time period –either a year or three month.

Inflation: refers to the change in the general price level. In Jamaica, this is derived as the change in the Consumer Price Index (CPI) calculated and published by the Statistical Institute of Jamaica.

Intermediate Target: An intermediate target of policy. e.g. the money supply or the exchange rate, has three main characteristics.
It is not directly determined by the Central Bank,
It responds, however, to a stimulus that the Central Bank can vary, and
Its behaviour should to be closely related to the ultimate target-inflation.

Jamaica Central Securities Depository (JCSD): The Principal function of the JCSD is to provide for relatively risk-free settlement of share transactions. It accomplishes this by employing an electronic, book-entry system for registering changes of ownership of securities which eliminates the need for physical certificates. The JCSD also provides vaulting facilities for the safekeeping of certificates.

Liquid Asset*:* An asset is considered liquid if it can be easily and with little or no loss converted to cash. The liquid assets of commercial banks in Jamaica include notes and coins, short-term deposits at the Bank of Jamaica, GOJ Treasury Bills, Local Registered Stock maturing within 270 days and any GOJ security designated by the Ministry of Finance.

Money: Anything that is generally accepted in exchange for goods and services and for the payment of debt. (e.g. example, notes and coins.). Hence money is said to be a medium of exchange. Money also serves as a means of storing wealth as well as a standard of and unit of accounting for financial values and flows.

Money Supply**:** This is the stock of instruments or assets formally designated as money in a particular economy. There are alternative measures of money supply both within and between countries. In Jamaica, the measurements of money that are calculated and published are:
M1: Notes and coins in circulation + Demand Deposits
M2: M1+ Time and savings deposits
M3: M2 + Other Deposits.
A 'J' indicates that the components are Jamaican dollar liabilities only and an '*' indicates that the components also include foreign currency liabilities of the banking system.

Monetary Base**: See *Base Money***

Monetary policy framework: This defines the transmission process through which policy actions taken by the Central Bank make an impact on the final target - inflation. The components of a monetary policy framework are policy instruments, operating targets, intermediate targets, and the ultimate goal/objective.

Monetary Policy Instruments: These are instruments used by the Central Bank to influence the money supply and credit. They include open market operations and the reserve requirement ratio.

Open Market Operations (OMO): Money market trading between the Bank of Jamaica and authorized dealers with the intention of influencing money and credit in the financial system. OMO involves outright sale or purchase of GOJ securities from the stock of securities held by BOJ, and/or repurchase and reverse repurchase transactions.

Operating Target: An operating target of policy e.g. the monetary base and interest rates, is influenced directly by the Central Bank and is adjusted by the Bank in order to bring about the desired impact on its policy target.

Primary Dealer (PD**):** The set of intermediaries through which BOJ conducts open market operations. In developed country markets, PD's underwrite government issues as well as participate in block transactions with the central bank.

Real Appreciation: An increase in the volume of foreign goods that can be bought with a unit of domestic currency; alternatively it is a decrease in the volume of domestic goods that can be purchased with a unit of foreign currency. Thus, a real appreciation makes exports less attractive and imports relatively cheaper. This may ensue from a nominal appreciation, which is the rise in the unit price of the currency, or a greater increase in domestic prices relative to foreign prices, or both.

Real Exchange Rate**:** The price of one country's currency in terms of another, adjusted for the inflation differential between the countries.

Real interest rate: This represents the rate of return on assets after accounting for the effects of inflation on the purchasing power of the return. It is calculated by adjusting the nominal interest rate by the inflation rate.

Repurchase Agreement (repo)**:** The purchase of a security from a primary dealer who agrees to repurchase the same at a specified rate and an agreed future date.

Reserve Requirement: refers to the portion of deposit liabilities that financial institutions may not lend and have to retain either as liquid assets or on deposit at the Bank of Jamaica.

Reverse Repurchase Agreements: An agreement whereby the Central Bank sells a security that it owns and agrees to buy back same at a specified rate at an agreed future date.

Securities**:** Legal documents giving title to property, or claim on income e.g. bonds and stocks.

Signal Rate: Interest rate on Bank of Jamaica's thirty-day reverse repurchase agreements. This rate provides a benchmark for the pricing of all open market instruments negotiated between the BOJ and Primary Dealers.

Statutory Cash Reserves**:** That portion of deposit liabilities of deposit-taking institution, which by a statutorily based stipulation, must be held as interest free deposits at the Central Bank.

Sterilization*:* The use of open market operations to prevent intervention in the foreign exchange market from changing the monetary base. With sterilization, any purchase of foreign exchange is accompanied by an equal-value sale of domestic bonds and vice versa.

Time deposit**:** A bank account based on a contractual arrangement between the deposit taking institution and the depositor where both parties agree to a pre-determined interest rate and maturity date, on which deposits earn interest and premature withdrawals from which require advance notice.

Quasi-Fiscal Costs: The cost to the central bank of sterilizing the liquidity effects of capital inflows.

Quasi-money: Savings Deposits plus Time Deposits.

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